



The Audit Findings for South Somerset District Council

Year ended 31 March 2013

September 2013

Simon Garlick

Engagement Lead

T 0117 305 7878

E Simon.P.Garlick@uk.gt.com

Peter Lappin

Audit Manager

T 0117 305 7865

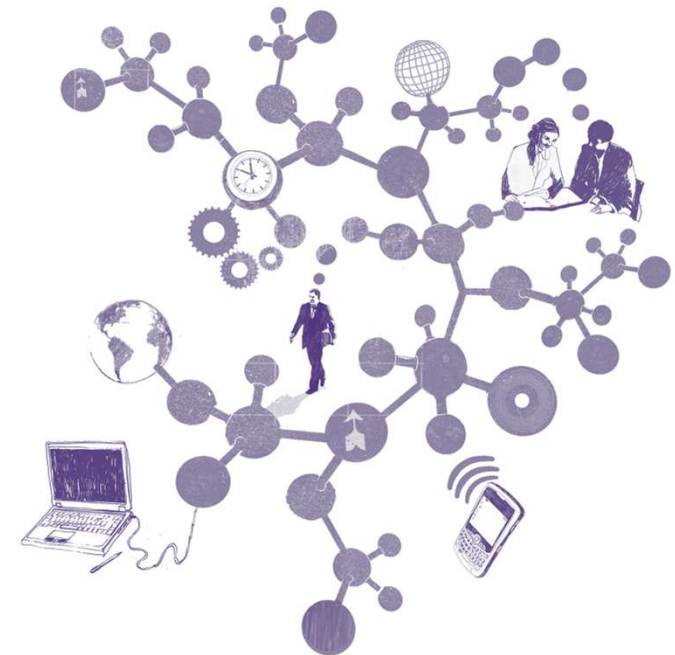
E Peter.Lappin@uk.gt.com

Sophie Harcombe

Audit Executive

T 0117 305 7875

E sophie.harcombe@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

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03. Value for Money

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of South Somerset District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated May 2013. Our audit is substantially complete although we are finalising our work in the following areas:

- awaiting a schedule of write offs that agree to the NNDR3 return
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

Our audit of the financial statements submitted for audit did not identify any errors which would adjust the reported General Fund balance. There was a reduction in both creditors and cash at bank by £1.26m. The Finance team is now aware that items can be posted back into the previous year. This should allow an easier audit trail for the bank reconciliation and reduce the risk of misstatement.

There is one unadjusted misstatement relating to the inclusion of the current fair value of the investment of £587,000 in Lufton 2000 in the Council's balance sheet.

The accounts were produced to a good standard and the audit has been facilitated by excellent assistance by the finance team.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to:

- review of IT security policy
- complexity of passwords
- anti virus software for Solaris servers
- review of user access

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director (Finance and Corporate Resources).

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Director (Finance and Corporate Services) and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP
September 2013**

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 23 May 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 23 May 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Operating expenses understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested operating expenses including obtaining supporting documentation for a sample of transactions in year 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Testing of year end creditors (unrecorded liabilities) 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed a sample of employee remuneration expenses to confirm they have been appropriately accounted for 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • Review of reconciliaion of the housing benefit and council tax benefit subsidy claim to the ledger and accounts • Review of system parameters • testing a sample of benefit claims to ensure they were eligible and had been calculated correctly 	Our audit work has not identified any significant issues in relation to the risk identified.


Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed a sample of capital expenditure transactions to confirm they had been appropriately accounted for 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • evaluated the qualifications and the work completed by the Valuer to ensure that the Code had been complied with • confirmed that the asset values had been appropriately accounted for in the asset register and accounts 	Our documentation and walkthrough of the transaction cycle has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular: <ul style="list-style-type: none"> • Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services. • Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. • Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected. 	We have reviewed the Council's recognition of revenue and found that:- <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Revenue had been appropriately recognised 	 <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>

Assessment



- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – depreciation – revaluations – impairments – provisions – accruals 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:-</p> <ul style="list-style-type: none"> • Appropriate policies had been used • Accounting policies had been adequately disclosed • Areas where judgement had been used were supported by the work of an expert or a third party <p>However, for debts more than 90 days the Council calculates the provision / impairment based on the amount outstanding and original debt and applies this percentage as an average for different types of debt.</p> <p>Whereas it may provide a commentary on credit history it does not reflect that as time passes debt is less likely to be collected.</p> <p>For example, the percentage provision for housing benefits is greater for debts between 4-12 months than the percentage for debts more than one year.</p>	 Refine method for calculation of bad debts
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has highlighted that the Council could enhance disclosures for leases where it is the lessor – in terms of – when the amounts are due – similar to the bandings for the lease disclosures as a lessee.</p> <p>Although the Council has a rolling programme of revaluations, it could show the values of assets in each year of the revaluation cycle, e.g. £xm of land and buildings revalued on 1 April 201x.</p>	 Consider lessor disclosure and amounts revalued by year.

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Significant payments including £1.26 million of BACS paid through the bank account on 28 March but not recorded in the ledger at the year end. Both cash and creditors are overstated. Both have been reduced.		1,255	
Overall impact	NIL	No effect on net assets	NIL

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure			Capital receipts balance in explanatory foreword amended to ensure consistency with Note 29 and other minor disclosure enhancements

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 In 2010/11, with the agreement of the previous auditors the Council decided not to present group accounts for Lufton 2000, because the entries were not material. Although we agree that the Council does not need to produce group accounts, it should include its share of the fair value of the assets, liabilities, income and expenditure in its own accounts. The Council's share (50%) of the net assets of Lufton 2000 at 31 March 2013 is £587,000.</p>	7	587	<p>The net assets are not material and there is adequate disclosure of the investment in Note 50. The adjustment to the balance sheet would be of a technical nature and would represent the first time that the Council has included the net assets in its own accounts. We will consider incorporating the value of the investment in the joint venture in the financial statements for 2013/14.</p>
Overall impact	7	587	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<p>IT Security Policy</p> <p>There is an IT Security Policy in place which is hosted in a location that can be accessed by all staff and their acknowledgment of it is captured when they have their account creation. It was noted however that the IT Security Policy has a review date of January 2010, at the time of the audit there was no evidence available that this review had been completed.</p> <p>Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security requirements of the business, which may compromise the organisation's computing environment.</p>	<ul style="list-style-type: none"> The IT Security Policy should be reviewed in line with the planned schedule to ensure its continuing suitability, adequacy, and effectiveness. <p>Management response:</p> <ul style="list-style-type: none"> The policy refresh cycle used to be one year however our Lean review recommended that we review policy every three years. It is recognised however that the review is still overdue and this will be addressed.
2.	●	<p>Logical access controls</p> <ul style="list-style-type: none"> There are weak logical access controls on the EFinancials and Northgate systems as there is no enforcement of password complexity rules. The option to encrypt passwords in the Northgate system was also not selected for the sample of accounts viewed during the review. If password complexity rules are not enabled the risk of an account being compromised is increased as there is nothing to prevent a user selecting a weak or easily guessable password. The absence of password encryption also increases the risk of password secrecy being compromised. 	<p>The password complexity parameters should be enabled within the EFinancials and Northgate systems. Password encryption should also be enabled in the Northgate system.</p> <p>Management response:</p> <p>The following improvements will be completed by the end of September 2013 to bring EFinancials line with ICT policy –</p> <ul style="list-style-type: none"> increase the minimum password length from 5 to 7 characters; force the inclusion of at least 1 alpha and 1 numeric character. Agree to the actions regarding Northgate and these have been added to our work plans.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
3.	●	<p>Anti-virus software</p> <p>Kaspersky anti-virus software is installed on all Windows machines and servers, however there is no anti-virus software installed on the two Solaris servers which host the EFinancials and Northgate Revenues system.</p> <p>Whilst it is acknowledged that Solaris systems present a low risk of virus infection, it is good practice for anti-virus software to be installed in order to minimise the risk of viruses spreading.</p>	<p>Management should ensure that anti-virus software is installed on the two Solaris servers which are not presently covered.</p> <p>Management response:</p> <p>The risk presented is very low and we have measures in place to mitigate. There is no direct access to the servers by users, there is no exposure to the internet and they have been security trimmed to ensure only required services are running. One of the servers is due for replacement in October 2013 and one in April 2014, so anti-virus protection will be re-considered as part of that work.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
4.	●	<p>Network access review</p> <ul style="list-style-type: none"> There is no formal review of user access to the network system on a regular basis. If periodic reviews of user accounts are not conducted on a regular basis, there is a risk that dormant user accounts could be exploited to gain unauthorised access to the organisation's systems. Furthermore, there is a risk that network access rights may become disproportionate over time to the users' responsibilities and this may not be identified in a timely manner 	<p>Management should consider implementing a formal process to review user access to the network on a regular basis (e.g. quarterly) to ensure access is appropriate based on job functions and all terminated users have been appropriately removed.</p> <p>Management response:</p> <ul style="list-style-type: none"> ICT now run a quarterly check for dormant accounts as a backup for the normal process of being informed by HR. This addresses network logins, access to email and access to any systems for which the login has been integrated with Active Directory (AD). Rights to file systems and shared areas are also maintained by ICT through AD and these are updated when ICT are informed. Changes (and possibly a consequential reduction in rights) are normally picked up when ICT are asked to increase rights elsewhere. Systems not integrated with AD are maintained by service based system administrators who also are responsible for moves, additions and changes in relation to those systems.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously received a letter from the Chair of the Audit Committee detailing the risk of fraud. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. We have made recommendations about enhancing disclosures for dates of valuations and operating leases where the Council is a lessor.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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 Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that the Council has managed its finances effectively. It has relatively high levels of reserves (as a percentage of gross expenditure) and it has delivered ambitious savings targets. This has led to significant underspends over recent years.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. The Council has used benchmarking in a focused manner, where there has been a review of the service or considering the impact of a LEAN review on performance.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>The current economic climate makes achieving financial balance and savings plans challenging. South Somerset's original budget had planned savings of £1.5 million in 2012/13. Review of its Medium Term Financial strategy and Medium Term Financial plan for 2013/2014 show that further savings need to be found in medium term.</p>	<p>The Council closed the budget gap for 2013/14 and set a balanced budget. The outturn for 2012/13 showed an underspend on its original budget of £0.26m and £0.82m on its revised budget.</p> <p>The General Fund balance increased by £0.185m in 2012/13 ensuring that balances are well above the minimum levels set by the Council. Earmarked reserves also increased by £1.08m.</p> <p>The Council has relatively high usable reserves (mainly capital but its revenue reserves are healthy as well).</p>	<p>The Council has effectively managed its financial risks. Although, in common with many local authorities, the Council has to find further savings over the medium term, its financial performance over recent years shows that it is well placed to manage its financial risks.</p>

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	£64,801	£64,801
Grant certification (indicative)	£16,850	£16,850
Total audit fees	£81,651	£81,651

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should refine its revised method of calculating the provision for bad debts.	Medium	The method of calculating the provision of bad debt was made this year. Some tweaks need to be made to make the methodology more fit for purpose	Finance Manager, Amanda Card March 2014
2	The IT Security Policy should be reviewed in line with the planned schedule to ensure its continuing suitability, adequacy, and effectiveness.	Low	The policy refresh cycle used to be one year however our Lean review recommended that we review policy every three years. It is recognised however that the review is still overdue and this will be addressed.	End November 2013. Jess Power (ICT)
3	The password complexity parameters should be enabled within the EFinancials and Northgate systems. Password encryption should also be enabled in the Northgate system.	Low	The following improvements will be completed by the end of September 2013 to bring EFinancials line with ICT policy – increase the minimum password length from 5 to 7 characters; force the inclusion of at least 1 alpha and 1 numeric character. Agree to the actions regarding Northgate and these have been added to our work plans.	Amanda Card / Ian Potter Dec 2013

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	Management should ensure that anti-virus software is installed on the two Solaris servers which are not presently covered.	Low	The risk presented is very low and we have measures in place to mitigate. There is no direct access to the servers by users, there is no exposure to the internet and they have been security trimmed to ensure only required services are running. One of the servers is due for replacement in October 2013 and one in April 2014, so anti-virus protection will be re-considered as part of that work.	Not agreed for the reasons given in the management response.
5	Management should consider implementing a formal process to review user access to the network on a regular basis (e.g. quarterly) to ensure access is appropriate based on job functions and all terminated users have been appropriately removed.	Low	ICT now run a quarterly check for dormant accounts as a backup for the normal process of being informed by HR. This addresses network logins, access to email and access to any systems for which the login has been integrated with Active Directory (AD). Rights to file systems and shared areas are also maintained by ICT through AD and these are updated when ICT are informed. Changes (and possibly a consequential reduction in rights) are normally picked up when ICT are asked to increase rights elsewhere. Systems not integrated with AD are maintained by service based system administrators who also are responsible for moves, additions and changes in relation to those systems.	This has been implemented and is now an on-going process.
6	Consider enhancements to disclosures on leases (as a lessor) and dates and amounts for each year of revaluation.	Low	Yes – we will consider the enhanced disclosures and recognise that these are relatively minor.	Finance Manager, June 2014

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Opinion on the financial statements

We have audited the financial statements of South Somerset District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement 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 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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 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. Our 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 us 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, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Somerset District Council as at 31 March 2013 and of its expenditure and income 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 2012/13.

Opinion on other matters

In our 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 we report by exception

We report to you if:

- in our 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we 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
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 2013.

Certificate

We certify that we have completed the audit of the financial statements 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.

Simon Garlick
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street,
Bristol
BS1 6FT

26 September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 23 May 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

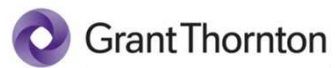
Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	See recommendation about bad debt provision
Assets held for sale	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Inventories	Inventories	None		No	None
Cash and cash equivalents	Bank and cash	None		No	Yes – see adjusted misstatements
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	Yes – see adjusted misstatements
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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