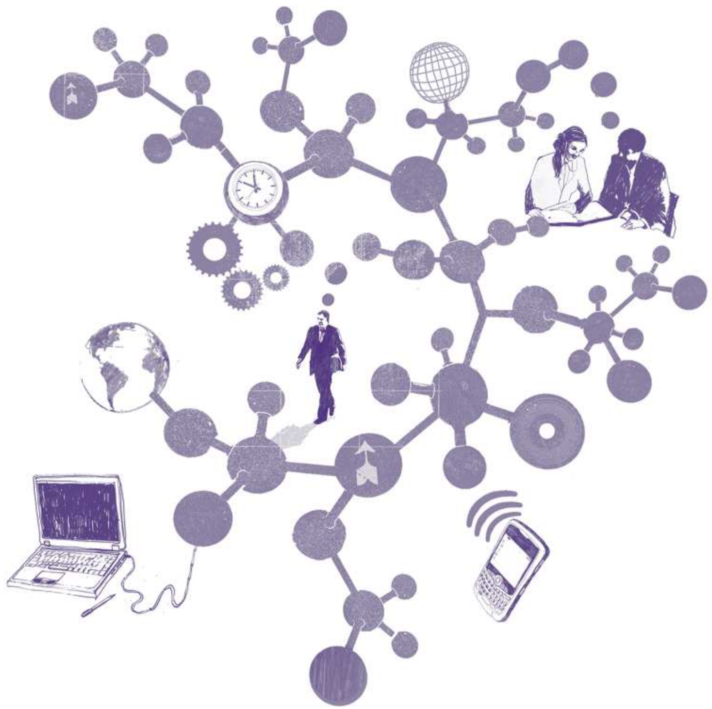
The Audit Findings
for South Somerset District Council

Year ended 31 March 2014

Audit Committee - 29 September 2014



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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.

Contents

Section 1: Executive summary

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 2014. 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 27 March 2014. At the time of drafting this report (16 September) our audit is progressing and we are finishing the work on

- Council tax and NNDR
- operating expenses
- Property Plant and Equipment and the disclosures that the Council will make about its judgement that the carrying values of assets are not materially different from the fair values (as the Council operates a rolling programme of revaluations)
- awaiting two confirmations from investees to complete bank and investments and assurances on valuations on long term investments.
- 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 Account return

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 have received an objection to the accounts for 2013/14 regarding:

- the legal costs of a planning application and
- the renegotiation of another planning obligation.

We are satisfied that both issues do not have a material impact on the financial statements for 2013/14. However, we have yet to determine the substance of the objection and this will be concluded after the issuing of the opinion. Consequently, the certificate closing the audit will be delayed.

We have not identified any adjustments affecting the Council's reported financial position but we identified a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the Council implemented our recommendation from last year about including the investment in Lufton 2000 in its accounts
- the Council has separately disclosed the provisions for business rate appeals

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

- the Council included the additional disclosures that we suggested during the audit and corrected some minor typographical errors
- the financial statements were supported by a high standard of working papers in accordance with the agreed timetable supported by excellent assistance from the finance team.

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:

- reconciliations of payroll control accounts
- evidence to support bank reconciliations
- refresh of the IT Security policy

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 Services)

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 2014

Section 2: Audit findings

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 27 March 2014. We also set out the adjustments to the financial statements arising 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 27 March 2014.

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.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

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
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Initial substantive testing of Operating Expenses to underlying supporting documentation • Review and testing of creditors/liability balances of unusual and large amounts • Review of unrecorded liabilities and after date payments to ensure all liabilities identified	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of a sample of payroll payments throughout the year to underlying evidence • Agreement of payroll accruals to schedules and underlying evidence • Review of senior officers pay disclosures and agreement to underlying data • Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete • Reconciliation of the payroll system figures to the general ledger figures	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
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of welfare expenditure will occur for the whole year to gain assurance over the welfare expenditure figures	• Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of capital expenditure during the year	• The Council purchased five vans of £120K in total and incorrectly treated this expenditure as revenue. The vans were resold to a leasing company and these transactions was treated as revenue income. The vans were then leased to the Council.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of revaluation adjustments	• Our audit work 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	• Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services. • Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as stocks on the balance sheet. • Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet. • Interest payable on borrowings and 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.	• The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code). • The disclosure of the accounting policy is adequate.	**GREEN** **Accounting Policy is appropriate and disclosures sufficient**
Revenue recognition	Council Tax income • The Council Tax income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. • This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at the 31st March 2014. This amount is then adjusted for the authority's share of the surplus/deficit at 31st March 2013 that has not been distributed or recovered in the current year.	• The Council will update this policy to reflect the council tax reduction scheme and the point at which income is recognised.	**GREEN** **Accounting Policy is appropriate and disclosures sufficient**

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
Revenue recognition	National Non-Domestic Rates (business rates) • The National Non-Domestic Rates income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. • This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at 31st March 2014. This amount is then adjusted for the authority's share of the surplus/deficit of 31st March 2013 that has not been distributed or recovered in the current year.	• The Council will update this policy to reflect the localisation of business rates and the point at which income is recognised.	**GREEN** **Accounting Policy is appropriate and disclosures sufficient**
Judgements and estimates	Key estimates and judgements include: • useful life of capital equipment • PPE revaluations and impairments • pension fund valuations and settlements • Provisions • accruals	• The estimates and judgements made by management are in line with the Code's expectations. • The pension fund valuations have been based on judgements and estimates from an independent actuary. • The estimates of asset valuations and asset lives are provided by an independent valuer.	**GREEN** **Judgements and estimates are appropriate and disclosures sufficient**

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 - PPE	**South Somerset's accounts** • Pages 41 – note 14 of the accounts set out the authority's rolling programme of revaluations. • This approach is similar to many other authorities and we are awaiting the Council's critical judgement to show that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. **Compliance with the Code** • In our view this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously. • This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: - the revaluation of the class of assets is completed within a '*short period'* - the revaluations are kept up to date	• In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. Officers have judged that the Council's asset base is too large to revalue all assets in any one year. The Council should consider changing its programme to revalue the whole of certain classes of assets each year. • The Council will set out its consideration of why it believes that the carrying value of assets does not differ materially from the fair values	**AMBER** **Council to consider revaluing all assets within a class of Property, Plant and Equipment within a single financial year**
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention other than have already been highlighted in this report • Minor omissions were reported to management during the course of the audit.	**GREEN** **Judgements and estimates are appropriate and disclosures sufficient**

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

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 primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account (CIES) £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The Council purchased 5 vans in 2013-14, which it then sold to a leasing company and subsequently leased back in an arrangement that constituted a finance lease. The initial purchase of the vans has been incorrectly expensed to revenue, with the subsequent receipt of money from the lease company netting the transaction in the Net Cost of Services to £nil. The Council has removed the transactions (income and expenditure from the CIES) Proper accounting treatment would have been to capitalise the vans, dispose of them upon their sale and then re-capitalise them with a corresponding liability upon the Council leasing them back. The current treatment has the effect of grossing up both income and expenditure by £119,621, although the effect on the Net Cost of Services is £nil. The transactions are currently shown under the 'Environmental and Regulatory Services' heading.	120		120
	Overall impact	**120**		**120**

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	Reclassification	950	Provisions	Provision for business rate appeals included within the collection fund but not as a separate provision within the notes to the account.
2	Disclosure	140	Leases (Note 42)	Testing identified that the disclosure in relation to the carrying value of assets held under a finance lease was incorrectly stated. The draft figure of £308k has been updated to the correct figure of £468k. Testing also identified a number of the prior year comparators in this note had not been updated from the 2011/12. They have subsequently been updated to match the figures in the 2012/13 signed financial statements.
3	Disclosure	150	Movement in Reserves Statement – Other Comprehensive Income and Expenditure 2013/14	Other Comprehensive Income and Expenditure - Unusable Reserves to be adjusted to (10,039) to agree with the Comprehensive Income and Expenditure Statement
4	Disclosure	580	Movement in Reserves Statement – Restated Balance at 31 March 2012	Total Usable Reserves restated balance at 31 March 2012 to be adjusted to £(47,884)K to include Joint Venture Reserve restated balance at 31 March 2012

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.	AMBER Deficiency – risk of inconsequential misstatement	• Payroll suspense accounts are not routinely checked and reconciled. Control is intended to operate on a monthly basis. As at 4 Feb, three reconciliations had been completed (27 June and 2 September 2013, and 14 January 2014).	• The Council should regularly reconcile its payroll control accounts.
2.	AMBER Deficiency – risk of inconsequential misstatement	• Documentation and evidence supporting reconciliations to bank statements could be improved, particularly for the Main Account. We noted small discrepancies between the hardcopy and electronic reconciliations, and trivial unreconciled amounts due to timing issues.	• The Council should enhance the supporting evidence for the reconciliation of bank statements.
3.	AMBER Deficiency – risk of inconsequential misstatement	• The Council has an out of date IT Security Policy which was last refreshed in 2010 and has not been subject to regular review. • 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. • This was also raised as a finding in 2012/13.	• We recommend that management carries out a refresh of the IT Security policy at least every 12 months to take account of new technology advances and cyber related threats.

Assessment

- Significant deficiency (Red) – risk of significant misstatement
- Deficiency (Amber) – 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**	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council.
4.	**Disclosures**	• Our review found no material omissions in the financial statements
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• 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

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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- 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 managed its expenditure to achieve an underspend of £81K against its original budget, while delivering its savings targets.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints within which it is required to operate. The Council should make more use of benchmarking when setting targets, (please see comment about council tax collection rates). The Council monitors performance especially where there has been service redesign to ensure that the Council is still achieving its targets.

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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance. The most recent comparative data relates to 2012/13 but the Council's figures for 31 March 2014 have also been reported, although such information for other Councils is not yet available.	The Council has a relatively high working capital ratio (current assets divided by current liabilities) . At 14.4 in 2012/13 it was the highest in its comparator group but it has reduced in 2013/14 to 10.5 because the Council has started to reinvest again in long term investments. The Council has achieved significant underspends against its original and revised budgets in each of the past six years. The cumulative underspend in those six years against the original budgets was £2.4m. The original estimate in each of the past four years have been a more accurate predictor than the revised estimate of the final outturn. The Council has relatively high levels of usable reserves (53% of gross revenue expenditure), the highest in its comparator group. However, most of this balance £36.4m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure. Days lost due to sickness at South Somerset had been consistently lower than the local government average over the period 2007/08 to 2011/12 but there was a significant increase in 2012/13, due to increased number of days lost to long term sickness. This rate has reduced from 11.49 in 2012/13 to 8.87 in 2013/14, although still above the Council's target of 8 days.	**Green**	**Green**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance (continued)	South Somerset's collection rate for Council Tax in 2012/13 at 97.8% (District average 98.1%) placed the Council in the worst performing third of all district councils (worst 20% of statistical neighbours). In 2013/14, although the national average for Districts fell to 97.9%, South Somerset's collection rate fell by a greater percentage to 97.4%. The difference between South Somerset's performance and the District Council average is 0.5% which translates into £421K of uncollected Council Tax, of which £42K is South Somerset's share. The Council's target collection rate is 97% which is well below the performance that most other district councils are already achieving. The Council is currently reporting performance on Council Tax collection as green. On the other hand, the Council has turned around its performance on the collection of business rates. In 2012/13 it collected 96.4% of business rates and was in the worst 20% of NNDR collection rates of district councils in the country. In 2013/14 the Council's collection rates have increased to 98.8%, 0.5% above the national average for district councils. Overall, the Council's below average collection rates for Council tax do not alter the overall green for key indicators of performance.	Green	Green
Strategic financial planning	The Council annually produces a five-year Medium Term Financial Plan (MTFP). The MTFP covers financial issues that the Council will face during the five year period. The Council has developed a strategy for dealing with the financial difficulties it is facing which include: • Making annual savings • Managed use of balances • Partial use of new homes bonus • Council tax increase • Growth in business rates The current MTFP to Council in February shows a budget gap of almost £1m in 2015/16 At the same time last year (September 2013) the budget gap for 2014/15 had been £2.2m. The Council was able to close that larger budget gap for 2014/15, and the current gap for 2015/16 is not as great . The Council is already identifying further savings and additional income (such as the sub leasing accommodation) to reduce the budget shortfall for next year - 2015/16.	Green	Green

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial governance	• The Management Board and District Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of Council tax benefits and the pooling of business rates. • The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council. • There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders. • There is regular budget reporting to the Management Board (monthly) and to the District Executive (quarterly). Reports show the original budget, revised budget and year end forecast for each service with an explanation of any variance. There are regular updates on budget virements and progress on major savings (with a report at the end of the year detailing the savings that have been achieved). • In 2012/13 we reported that the Council had achieved significant underspends against its original and revised budgets in each of the past 5 years. The cumulative underspend in those five years against the original budgets was £2.3m. In the past three years, the underspend against the revised budget had been greater than that recorded against the original budget. • In 2013/14 the Council reported that it had underspent on its original budget by £81K and its revised budget by £1,208K. This shows that the original budget has been a more accurate forecast than the revised budget of the final outturn in each of the past four years. • In 2013/14 there was an underspend of £2.7m on the original capital budget of £4.9m but the capital budget was reduced to £2.9m and the final outturn was £2.2m, an underspend of £661K.	**Green**	**Green**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	• In June 2014 the Council reported that it had achieved all of the £540K planned savings and that it had underspent on its original budget by £81K and its revised budget by £1,208K. This was another commendable performance to achieve an underspend and deliver the savings plans. • The Council reports on the delivery of its savings plans so that they can be monitored in addition to the overall budgetary position. • Internal Audit has completed its work programme and concluded that it could "…offer reasonable assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed…." • In 2012/13 we reported that internal audit was only able to offer partial assurance on the Council's risk management system and identified that there is insufficient review of the corporate risk register at senior management and Member level. • The Council responded to the action plan and the Audit Committee is receiving the key risks from the risk register, the mitigating action being taken and the responsible officer for the residual risk. In November 2013 Internal Audit undertook a follow up review and reported that a significant number of recommendations had been implemented and plans are in place to complete two of the three outstanding recommendations in the New year.	**Green**	**Green**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Prioritising resources	The Council has challenged delivery methods and considered alternative options, working with local authorities and other organisations for alternative ways of delivering services such as community and leisure trusts, and joint provision of services across local authorities. If has identified economic development as a key priority and invested in officer support to enable the Council to increase its impact in this area. The Chief Executive arranges budget roadshows to set out the key challenges facing the Council and the need to make savings and to encourage staff participation. The Management Board has agreed to look at cross cutting reviews as well as LEAN service reviews and work on the electronic document management project is being scoped. There are 5 areas for the Council to review and develop with the objective of significant savings and generation of additional income • income generation • asset rationalisation • procurement • transfer to 3rd parties • electronic document management / service redesign	Green	Green
Improving efficiency & productivity	The Council has adequate arrangements to monitor the implementation of spending reductions through regular budget monitoring and actions. There is evidence of how the Council monitors performance of services to ensure that reductions in spending don't adversely impact on Council priorities There are examples of joint working with other local authorities on Environmental Health and Licensing - delivering savings and service resilience. One of the most significant partnerships for South Somerset is the Waste Partnership and the Council has provided examples of how joint working and innovative ways of working with partners has reduced costs or improved services than had the Council worked alone. The LEAN process has generated significant savings from the redesign of services and the Council has monitored the impact of these changes on service delivery. The Council monitors key indicators of performance and there is scope to use benchmarking more effectively when setting targets (as seen earlier in the report about council tax collection rates).	Green	Green

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

Residual risk identified	Summary findings	RAG rating
Key indicators of performance	South Somerset's collection rate for Council Tax in 2012/13 at 97.8% (District average 98.1%) placed the Council in the worst performing third of all district councils (worst 20% of statistical neighbours). In 2013/14, although the national average for Districts fell to 97.9%, South Somerset's collection rate fell by a greater percentage to 97.4%. The difference between South Somerset's performance and the District Council average is 0.5% which translates into £421K of uncollected Council Tax, of which £42K is South Somerset's share. The Council's target collection rate is 97% which is well below the performance that most other district councils are already achieving. The Council should set a target collection rate that is informed by performance already being achieved by other district councils. The Council is currently reporting performance on Council Tax collection as green.	**Amber**
Financial Governance	In 2012/13 we recommended that "…the Council needs to review the robustness of the process for producing revised estimates and identify the reasons for variances in the final quarter of the year…" In 2013/14 the Council reported that it had underspent on its original budget by £81K and its revised budget by £1,208K. This shows that the original budget had again been a more accurate forecast than the revised budget of the final outturn. However, the Council was predicting a £700k underspend in December 2013 . The Council accepts that although the original budget was more accurate than the revised budget, the Council was predicting an underspend through its budget monitoring process. The Council needs to address our recommendation from 2012/13.	**Amber**
Improving efficiency & productivity	The Council monitors its performance against targets across a range of indicators. It is not clear in light of our comments about council tax collection targets how the Council uses benchmarking when setting targets for service performance.	**Amber**

Section 4: Fees, non audit services and independence

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	65,701
Grant certification	12,200	*10,736
Total audit fees	**77,001**	**76,437**

'There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NNDR3 claims. The additional fee is 50% of the average fee previously charged for NNDR3 certifications for a district council and is subject to agreement by the Audit Commission.'

*The indicative fee for grant certification has been reduced from the plan because the housing benefit claim will not include council tax benefits following the introduction of the council tax local reduction scheme.

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

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.

Our communication plan	Audit Plan	Audit Findings
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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should set a target collection rate for Council Tax that is informed by performance already being achieved by other district councils. The Council should use benchmarking more effectively when setting targets for other indicators.	High	The Council will review the staffing levels in order to improve the collection rates. Debt collection work has increased by 38% since the introduction of the Council Tax Reduction Scheme and economic downturn.	Donna Parham March 2015
2	The Council needs to review the robustness of the process for producing revised estimates and identify the reasons for variances in the final quarter of the year.	Medium	The Council has improved budget forecasting over the past year and will look to better predict year end adjustments. The budget is revised only for carry forwards and additional commitments which are added into the budget. They tend not to be spent by year end and increase the underspend.	Donna Parham March 2015
3	The Council should regularly reconcile its payroll control accounts.	Medium	We undertake routine quarterly checks and these are ample. Most transactions are received electronically from payroll. Any manual interventions are as a result of changes in employee bank accounts which are very infrequent.	No change necessary
4	The Council should enhance the supporting evidence for the reconciliation of bank statements.	Medium	We will look into what other supporting evidence is available and how this can be best used.	Amanda Card December 2014

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	We recommend that management carries out a refresh of the IT Security policy at least every 12 months to take account of new technology advances and cyber related threats.	Medium	During the Lean process it was recommended that policies were reviewed every 3 years. However we appreciate that this still means the review period is out of date. The policy has been informally reviewed from time to time and as no high risk omissions were identified it was decided not to initiate a formal review process. The policy is now being formally reviewed.	Roger Brown December 2014
6	The Council should consider revaluing all assets within a class of Property, Plant and Equipment within a single financial year.	Medium	The Council will consider how the revaluation programme can be amended to comply with this aspect of the Code.	Amanda Card March 2015

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 Authority financial statements

We have audited the financial statements of South Somerset District Council for the year ended 31 March 2014 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 2013/14.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2013/14 and applicable law.

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 October 2013, 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 2014.

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 October 2013, 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 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

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

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expected 29 September 2014

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