

# Annual Audit Letter

South Somerset District Council

Audit 2008/09

December 2009



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## Status of our reports

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

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

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

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## Audit Opinion

- 1 I issued an unqualified opinion on the financial statements on 24 September 2009.

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## Financial Statements

- 2 The draft financial statements presented for audit were supported by a comprehensive set of working papers, and the appropriate staff were readily to respond to all queries raised at audit. As a result of our audit a small number of adjustments to the statements were agreed with officers and the statements were amended accordingly.

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## Value for money

- 3 The Council achieved level 3, 'performing well', for all three themes of the new Use of Resources methodology. I issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

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## Audit fees

- 4 We reported our planned fees to the Council as part of our 2008/09 Audit Plan and supplementary opinion fee letter. Table 1 compares the actual fee with the planned fee.

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**Table 1      Audit fees**

	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	73,649	73,649	-
Value for money	32,247	32,247	-
<b>Total audit fees</b>	<b>105,896</b>	<b>105,896</b>	-

## Independence

- 5 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

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

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## Significant issues arising from the audit

- 6 The Council's arrangements for preparing the financial statements are well-planned and resourced, and the draft statements presented to us for audit are supported by good and comprehensive working papers. The appropriate officers provided prompt responses to all queries that we raised during the audit. When the accounts were presented to the Audit Committee for approval, officers set out the key issues very clearly, and there was a thorough and well-informed discussion on the accounts before they were formally approved.
  - 7 The Council's arrangements for preparing the Annual Governance Statement and monitoring actions on the significant issues identified in the Statement have been strengthened by the establishment of a Corporate Governance Group of the three statutory officers. This group meets quarterly and receives reports from the Head of the South West Audit Partnership (internal audit).
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## Material weaknesses in internal control

- 8 I did not identify any significant weaknesses in your internal control arrangements.
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## Accounting Practice and financial reporting

- 9 I considered the qualitative aspects of your financial reporting. There are no issues I want to raise in this letter.

# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 10** In forming my scored judgements, I have used the methodology set out by the Audit Commission. Judgements have been made for each key line of enquiry (KLOE) under three main themes: managing finances, governing the business and managing resources.
- 11** The Audit Commission's scoring methodology is as follows:
- Level 1 - inadequate and below minimum standards.
  - Level 2 - adequate.
  - Level 3 - performing well.
  - Level 4 - performing strongly.
- 12** The Council's scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 2 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

- 13** The Council has achieved Level 3 for each of the three Use of Resources themes. It also scored Level 3 for all except one (risk management and internal control) of the Key Lines of Enquiry (KLOEs) supporting these themes. The Council is to be commended for achieving such a strong set of scores for the first year of the new methodology.

## Value for money and use of resources

### Managing finances

- 14** Through robust financial planning, the Council has established a strong financial base for delivering its corporate priorities. It consistently delivers expenditure within budget, maintains balances above target levels, and has agreed a medium term strategy for using part of its significant capital reserves to help deliver corporate priorities. It uses treasury management to support its financial objectives. The Council engages effectively with the local community in financial decision-making.
- 15** The Council has a well developed understanding of its costs across its services and uses this in its improvement planning. Benchmarking and comparative data is used widely to compare the costs of services. This provides the Council with an excellent understanding of where and how its money is spent. It applies this knowledge in decision making. The programme of lean reviews is delivering significant savings. The Council has a good understanding of the value of its assets and has processes in place to manage these effectively.
- 16** Internal financial reporting is timely, understandable and supports effective management action. The financial reporting systems are flexible and accessible. Performance reports to members have financial and performance information, with commentary on the reasons for budgets or performance being off-course. The Council has strong processes in place for preparing and approving the statement of accounts.
- 17** Areas for further improvement:
- ensuring there are clear links from charging policies to corporate objectives;
  - using the outcomes from equalities impact assessments to inform service and financial planning;
  - developing clear links from the Carbon Reduction Strategy to service plan proposals for reducing carbon emissions;
  - making greater use of benchmarking when setting budgets and performance targets;
  - making greater use of cost analysis in financial reports; and
  - consulting regularly with stakeholders about what they want to see in reports to the public.

### Governing the business

- 18** The Council has a clear and robust approach to procurement, with well-developed rules supported by examples of good practice, building on the Council's good understanding of its costs. The Council uses service redesign to achieve greater efficiencies. The Council uses its extensive data on its costs to inform areas for review and potential change, including out-sourcing.

- 19** The Council has well developed processes in place for managing information. A data quality policy clearly allocates responsibility for data at the highest management and political levels. There is clear guidance for staff which defines minimum requirements for data checking. The Council has a data sharing protocol. Decision makers receive relevant and comprehensive financial and performance data. There are business continuity plans for each service area, with regular testing. There are effective, industry standard policies in place for security and ICT compliance. The Council monitors performance through financial and performance reports although there is no specific link between the two.
- 20** There is a structured approach to equipping members to carry out roles effectively. Last year, the council was first in the South West to receive the Charter Award for member development. The Council has a clear vision of what it wants to achieve for local communities. The Corporate Plan sets out actions to deliver this vision over the medium term. The Council has good arrangements for policing standards of conduct, but knows it need to develop a more proactive role. The Council ensures value for money from its partnership working and grants to voluntary bodies.
- 21** Risk management is embedded in financial and service planning, policy development and partnership working. The Council has good anti-fraud procedures, although it invests fewer resources in its benefit fraud team than many other councils. The Council has a sound internal control environment supported by effective internal audit and a challenging Audit Committee.
- 22** Areas for further improvement:
- making greater use of information on public satisfaction with services to drive improvement;
  - strengthening the links between financial and performance reporting;
  - being more proactive in promoting good standards of conduct;
  - providing members with a regular reports which set out clearly how the Council's major risks are being managed;
  - improving staff awareness of anti-fraud and whistle blowing policies; and
  - ensuring that anti-fraud work is adequately resourced.

### Managing resources (workforce planning)

- 23** The Council has a trained and skilled workforce. The Council has published a Skills Pledge and conducted a skills audit of all staff to identify gaps. Staff without a level 2 Non Vocational Qualification (NVQ) or equivalent related to their job can receive NVQ level training through the programme. There is a good councillor development programme in place, providing a range of development opportunities for councillors
- 24** The Council's workforce plan links with key organisational objectives, including communicating with staff, managing transformational change, data quality, performance management and project management. The plan identifies services with recruitment obstacles and the workforce action plans addresses this. It identifies the staffing reductions needed in the medium term and sets out how these will be achieved.

## Value for money and use of resources

- 25** There is a good range of communications and engagement with staff. The monthly newsletter received by all staff is informative, good quality and addresses important issues in an accessible format. The Chief Executive's 'sounding board' meetings enable staff to ask the Chief Executive questions or express concerns. Questions and responses are recorded and circulated for those unable to attend.
- 26** The Council publishes a wide range of 'keep it simple' briefing notes on various subjects such as data quality, how decisions are made, and workforce planning. The leaflets are written in plain English and are informative and easy to read. Staff have access to a staff suggestion scheme based on the Council intranet. The Council uses a web based policy compliance tool, developed in-house, which enables managers to track that staff are aware of and understand the relevant policies. There are also effective arrangements for monitoring grievances, disciplinary and capability cases by age, gender and ethnicity.
- 27** Areas for further improvement:
- recruiting to hard to fill areas;
  - including an analysis of staff morale and satisfaction in the workforce plan;
  - including appropriate equality details in people management records, such as those relating to capability, grievance and disciplinary cases; and
  - ensuring all councillors have personal development plans and complete annual appraisals.

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### VFM conclusion

- 28** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify, each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 29** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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# Closing remarks

- 30** I have discussed and agreed this letter with the Council's Management Board. I will present this letter to the District Executive on 3 December 2009 and will provide copies to all committee members.
- 31** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 3**

Report	Date issued
Audit Plan 2008/09	April 2008
Supplementary opinion fee letter	June 2009
Use of Resources Report	September 2009
Annual Governance Report	September 2009
Auditor's opinion and value for money conclusion.	September 2009

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

Brian Bethell  
 District Auditor  
 December 2009

# Appendix 1 – Use of resources key findings and conclusions

33 The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

<b>Theme score</b>	<b>3</b>
<b>Key findings and conclusions</b>	
The Council has put in place robust arrangements for managing its finances to help ensure that it delivers value for money.	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
Through robust financial planning, the Council has established a strong financial base for delivering its corporate priorities. It consistently delivers expenditure within budget and maintains balances above target levels. The capital programme is well-managed. The Council sets itself efficiency targets above the national and local targets and consistently achieves these. It has a clear medium-term financial plan (MTFP) for achieving efficiency savings. The Council engages effectively with the local community in financial decision-making. The MTFP identifies budget shortfalls for the next five years, and shows how these will be closed through achieving savings targets. Members receive regular training and presentations to ensure they understand key financial issues facing the Council and can provide effective challenge.	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>The Council has a well developed understanding of its costs across its services and uses this in its improvement planning. Benchmarking and comparative data is used widely to compare and reduce the costs of services. The programme of lean reviews is delivering significant savings. The Council has a good track record of delivering required efficiencies. The Council has a good understanding of the value of its assets and has processes in place to manage these effectively. A budget gap of £1.1m is emerging for 2010/11 but the Council is developing plans to manage this through a programme of staff reductions and lean reviews.</p>	
<p><b>KLOE 1.3 (financial reporting)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>Internal financial reporting is timely, understandable and supports effective management action. Budget monitoring reports to members highlight very clearly the key issues and action needed. The Council has an excellent record in taking prompt and effective action on any overspends. The Council has strong processes in place for preparing and approving the statement of accounts. The closure process is well-planned and resourced, and the draft statements are supported by good and comprehensive working papers, with officers providing prompt and comprehensive responses to all queries raised at audit. The Council publishes all external reports on its website and makes them available in a variety of formats in line with equality requirements. A four-page summary of the financial statements is sent to all households inside a free newspaper.</p>	

## Appendix 1 – Use of resources key findings and conclusions

### Governing the business

<b>Theme score</b>	
<b>Key findings and conclusions</b>	
The Council's governance arrangements are sound and generally demonstrate good practice. There are robust arrangements in place for commissioning services that provide value for money and deliver better outcomes for local people.	
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
The Council has a clear and robust approach to procurement, although there is no specific, long-term vision for how the Council uses procurement to meet wider community outcomes. Staff are involved in procurement decisions. The Council attempts to use local suppliers in order to support the local economy. The Council is active in explaining the procurement process and provides effective guidance on its website on how to do business with the Council. E-procurement is promoted by the Council and guidance is clear on how to engage with this for prospective suppliers. The Council uses service redesign to achieve greater efficiencies.	
<b>KLOE 2.2 (data quality and use of information)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
The Council has well developed systems and processes in place for managing its information. A data quality strategy is in place which clearly allocates responsibility for data at the highest management and political levels, and this is supported by clear guidance for staff. Decision makers receive relevant and comprehensive financial and performance data. The Council has effective business continuity and disaster recovery policies and processes in place. The Council manages its databases well. The Council uses other information to monitor its services in addition to performance reports; complaints records are scrutinised, customer mini-surveys are undertaken and results from the Place Survey are analysed in relation to postcodes to understand results and impacts of services across the district.	

## Appendix 1 – Use of resources key findings and conclusions

<b>KLOE 2.3 (good governance)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>There is a structured approach to equipping members to carry out roles effectively. Last year, the Council was first in the South West to receive the Charter Award for member development. The Council has a clear vision of what it wants to achieve for local communities, and the Corporate Plan sets out actions to deliver this vision over the medium term. Regular ethical training is provided to members. The role of the Standards Committee and complaints process is publicised on the website, but the Committee needs to be more proactive to positively promote the ethical agenda. The Council ensures that it receives value for money from its partnership working and grants to voluntary bodies through effective monitoring of performance against agreed targets and outcomes.</p>	
<b>KLOE 2.4 (risk management and internal control)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>Risk management is embedded in financial and service planning, policy development and partnership working. The Audit Committee and Management Team receive regular risk management reports, although these could be improved by a clearer focus on how the key risks are being managed. The Council's anti-fraud policies have recently been updated, but internal audit found poor staff awareness of the content of these policies and whistle-blowing arrangements. The Council publicises successful fraud prosecutions. Resources for benefit fraud investigation are relatively low and this is reflected in relatively low level of sanctions. Internal audit meet professional standards and provide broad coverage of the main financial systems. The Audit Committee provides strong challenge, and is particularly effective in following up any significant weaknesses identified in audit reports. A Corporate Governance Group of the three statutory officers meets quarterly and receives regular reports from the Head of Internal Audit, the clearest outcome to date being the decision to establish a new fraud team in 2009/10.</p>	

## Appendix 1 – Use of resources key findings and conclusions

### Managing resources

<b>Theme score</b>	<b>3</b>
<b>KLOE 3.3 (workforce planning)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<p>The Council is proactive in developing a trained and skilled workforce and this brings benefits to the local community. The Council has published a Skills Pledge, identified skills gaps through a skills audit and uses training and development to fill these gaps. The Council takes care to ensure the wellbeing of its staff and has reduced sickness absence by 4 per cent in 2008/09. The Council has an effective approach to workforce planning. Its workforce strategy highlights the need for the Council to transform, outlines the skills it needs for the future and sets out a plan to reduce staff numbers by twelve per cent by 2012. The strategy identifies services with recruitment obstacles and outlines how it will address these, although the action plan could be more specific. The Council works with partners to fill skills. The Council engages with and supports its staff well through organisational change. A wide range of up to date human resource policies are in place which are accessible to staff and monitored through a policy compliance tool. Policies are clear, reflect good practice and have frequent review dates. The Council operates a range of rewards packages including childcare vouchers and cycle funding.</p>	

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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