

# The Annual Audit Letter for South Somerset District Council

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**Year ended 31 March 2016**

21 October 2016

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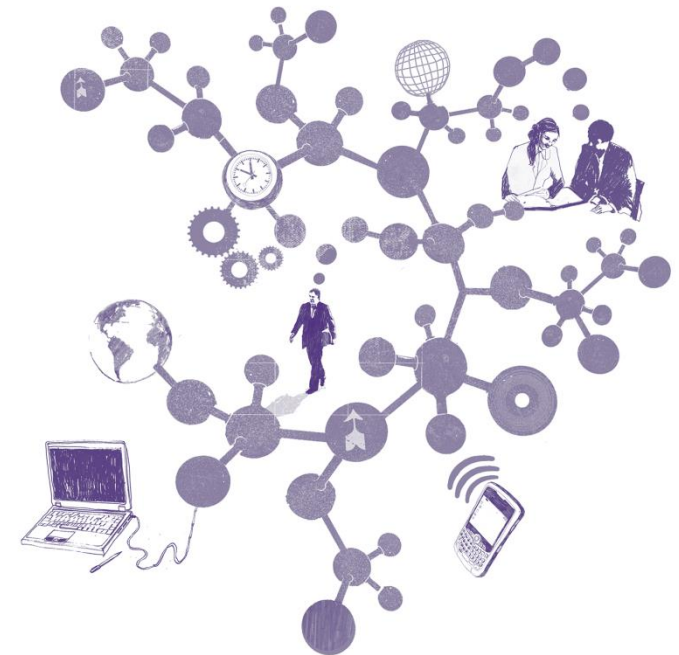
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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	10
4. Working with the Council	14

## **Appendices**

A Reports issued and fees

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Somerset District Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 26 July 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 28 July 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016

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## **Certificate**

We are currently unable to certify that we have completed the audit of the accounts of South Somerset District Council as we have not yet completed work in respect of objections received.

## **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

## **Working with the Council**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion before 31 July, the accounts deadline for the 2017/18 accounts, and in line with the timescale we agreed with you.
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.
- We provided insight and advice from our Local Government Advisory team and discussed options for income generation with Council members

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,613,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration and auditor's remuneration.

We set a lower threshold of £5,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

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# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

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Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period .The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li><li>• Reviewed the competence, expertise and objectivity of any management experts used.</li><li>• Reviewed the instructions issued to valuation experts and the scope of their work</li><li>• Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li><li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li><li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li><li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value</li></ul>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

The Council provided the accounts for audit at the end of June, a month ahead of the statutory deadline, which allowed us to complete our audit and issue the opinion on the accounts before 31 July 2016.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 26 July 2016.

In addition to the key audit risks reported above, we identified the following issue during our audit that we have asked the Council's management to address for the next financial year:

- Three assets within Land and Buildings were not updated to reflect the external valuation expert's assessment for 2015/16. Impairment of £60k and upwards revaluation of £138.5k was required.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.



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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings.

## **Overall VfM conclusion**

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 2016.

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium Term Financial Strategy</b></p> <p>The challenge of meeting the savings outlined by the Chancellor as part of the Autumn Statement continues to put pressure on Local Government Finances. The delivery of the Financial Strategy, and associated savings, is currently reliant on the continuation of the New Homes Bonus and transformational changes. The continued economic pressures further enforce the need for the Council to identify alternative methods of achieving a sustainable financial position for the future</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p> <p>We reviewed the robustness of the Council's financial plans and the extent to which the Council is seeking to identify alternative solutions to mitigate the risk of future cuts in resources and government funding</p>	<p>The Medium Term Financial Strategy (MTFS), presented to the Executive in January 2016, outlines how the Medium Term Financial Plan (MTFP) (i.e. the budget) will be delivered over the medium to long-term. The MTFP at South Somerset spans three years with a further two years added to show the likely longer-term picture. The Medium Term Financial Strategy links the resources required to deliver the Council Plan and the Council's strategies</p> <p>Currently the MTFP shows a projected gap for each year of the plan. The figures include all estimates for pay awards, council tax, business rates, Government grant and inflation</p> <p>The budget gaps identified need to be tempered by the fact that assumptions over income and expenditure from 2018/19 onwards are not as complete as in prior years due to unknown factors that the Council cannot predict such as, levels of RSG, changes to business rates arrangements and changes to Council Tax arrangements. The updated MTFS, presented to the Executive in September 2016 shows a reduced budget deficit gap of approximately £800k for 2017/18. This is a much improved position from that reported as at the end of the year and is indicative of the continued efforts being made by the Council to identify savings to address projected budget deficits</p> <p>The Council has a requirement to identify ways in which savings can be achieved and has formed four separate boards to help identify savings and income generation opportunities. Review of the first two areas found that although not scheduled to deliver until 2017/18 projects outlined had been done so on a reasonable basis and a robust methodology for calculation of savings had been used as demonstrated by the updated MTFS</p> <p>The uncertainty in ongoing government funding and the deficit gap outlined in the MTFP present a pressing and urgent need for the Council to pro-actively identify and implement savings programmes. The review of documentation and through discussion with management it is considered that these requirements have been, and continue to be, fully considered and implemented. Whilst recent reporting indicates that the issue is being addressed it is not possible to say that the programmes will provide the savings required on a continuing basis although the governance and approach implemented by the Council is considered robust and appropriate.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Council Tax Collection Rates</b>            The Council continue to have one of the lowest collection rates in the South West and the country with performance in 2015/16 comparable to 2014/15 at around 97%. With the increased pressure on local government finances and the need to maximise and fully utilise incoming resources collection of Council Tax will be vital to the continuing provision of services by the Council</p>	<p>We reviewed the council's arrangements to improve collection rates and monitor their effectiveness including how robust the Council's estimates and targets are.</p>	<p>The 2014/15 VfM conclusion identified that South Somerset's collection rate for Council tax was 97% which was a fall from the prior year figure of 97.4%. This meant the Council was in the worst performing quartile of all district councils. As a result of this process the Council took on four extra staff to deal with the collection issue and also the backlog that had occurred from failure to collect arrears previously by the Council</p> <p>The target for 2015/16 was 95% which is very low given that a collection rate of 97% is amongst the lowest quartile for all district councils nationwide. The low target of 95% has allowed the council to report collection rates as green for the past two periods despite the relatively poor performance. The Council had a collection rate of 97.2% in 2015/16 which exceeds the target set. Similar sized district councils within the South West have a target rate of 98% which is considered achievable and realistic in terms of collection rates.</p> <p>In overview, 97% is the absolute minimum target given that this level has been attained across the past three financial years. The Council has set a target rate of 97.5% in 2016/17 which is considered appropriate and in line with the step change the Council are implementing and reflective of the £1.5m arrears that the Council cleared. The amount collected in the first quarter of 2016/17 is 29.8% against a target of 28.5%</p> <p>The collection rate for the past three financial years has been 97.4% in 2013/14, 97% in 2014/15 and 97.2% in 2015/16. This is indicative of the issue being addressed and, as such, that arrears are being reduced. The performance in 2015/16 still leaves the Council in the lower quartile and behind the national average of approximately 98%. The upward trend in collection rates means that the VfM conclusion was not qualified although concerns remain around the low target collection rate used by the Council for monitoring purposes.</p> <p><b>We concluded that the risk was sufficiently mitigated for us to conclude that the Council has proper arrangements. We will continue to keep this under review.</b></p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Chief Executive Arrangements</b></p> <p>The joint temporary Chief Executive roles will be replaced by a permanent Chief Executive at a yet unspecified time. There is a risk that the continuing uncertainty affects decision making and the strategic direction of the organisation.</p>	<p>We will review the current arrangements the governance to ensue that strategic decisions are clear, properly reviewed, implemented and monitored.</p>	<p>Since 1st August 2015 SSDC operated without a substantive Chief Executive Officer (CEO) following the decision to cease the contractual arrangement with East Devon District Council. In July 2015 Full Council authorised a group of 4 members consisting of the Leader, Deputy Leader, Leader of the Conservative Group and Spokesperson for the Independent members. The starting point was a consideration of whether the Council could operate satisfactorily with just two senior officers; a CEO and one Director.</p> <p>During this period there was a continuation of the reporting process into the Executive and the Council through quarterly performance reports and continual monitoring of the finance position. The Council continued to review and update the Council Plan which runs for a period of five years from 2016 to 2021. Alongside the continued objectives a further priority that has been added for the new plan in High quality, cost effective services. The purpose of the plan is to allow the Council to make savings to meet future budget shortfalls with the intention that front-line services are protected wherever possible.</p> <p>The arrangements of joint, rotating, interim Chief Execs cover a period with Devolution and potential Joint Authority business case work requiring significant additional work. Recommendation for a single interim Chief Executive was made with the options to review at any point within the 6 month period. The Council appointed a single interim Chief executive and have subsequently appointed a permanent Chief Executive.</p> <p>The Council's performance as outlined in the Council's outturn performance report indicates that governance was not adversely affected by the appointment of joint temporary Chief Executives. The operational side of the process was considered to have not worked satisfactorily and therefore the Council took the decision to appoint a single temporary Chief Executive, pending appointment to a permanent post. The appointment has now been made and the new Chief Executive is in post.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit before July 31 which is the statutory deadline for the audit in 2017/18 and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Audit Committee effectiveness and Devolution. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services. We ran a bespoke seminar on income generation for your project board and you attended our free income generation workshop in October 2016.

We provided insight and advice from our Local Government Advisory team and discussed options for income generation with Council members

## **Working with you in 2016/17**

We will continue to work with you and support you over the next financial year in addition to continuing the support we have provided in 2015/16.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit and working with you to build on your success early closure of your accounts in advance of the faster close requirement in 2017/18.
- Understanding your operational and financial health – we will continue to focus our value for money conclusion work on your financial health, and consider the evolving arrangements for ensuring savings are realised in future years.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	49,276	49,276	65,701
Housing Benefit Grant Certification*	8,052	8,052	13,990
<b>Total fees (excluding VAT)</b>	<b>57,328</b>	<b>57,328</b>	<b>79,691</b>

## Fees for other services

Service	Fees £
<b>Non-audit services</b>	
Investors in People Accreditation	10,020

\*This work is ongoing and may be subject to a change in the final fee based on the work required to certify the claim

## Reports issued

Report	Date issued
Audit Plan	19 April 2016
Audit Findings Report	26 July 2016
Annual Audit Letter	Xx xxxx xxxx



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