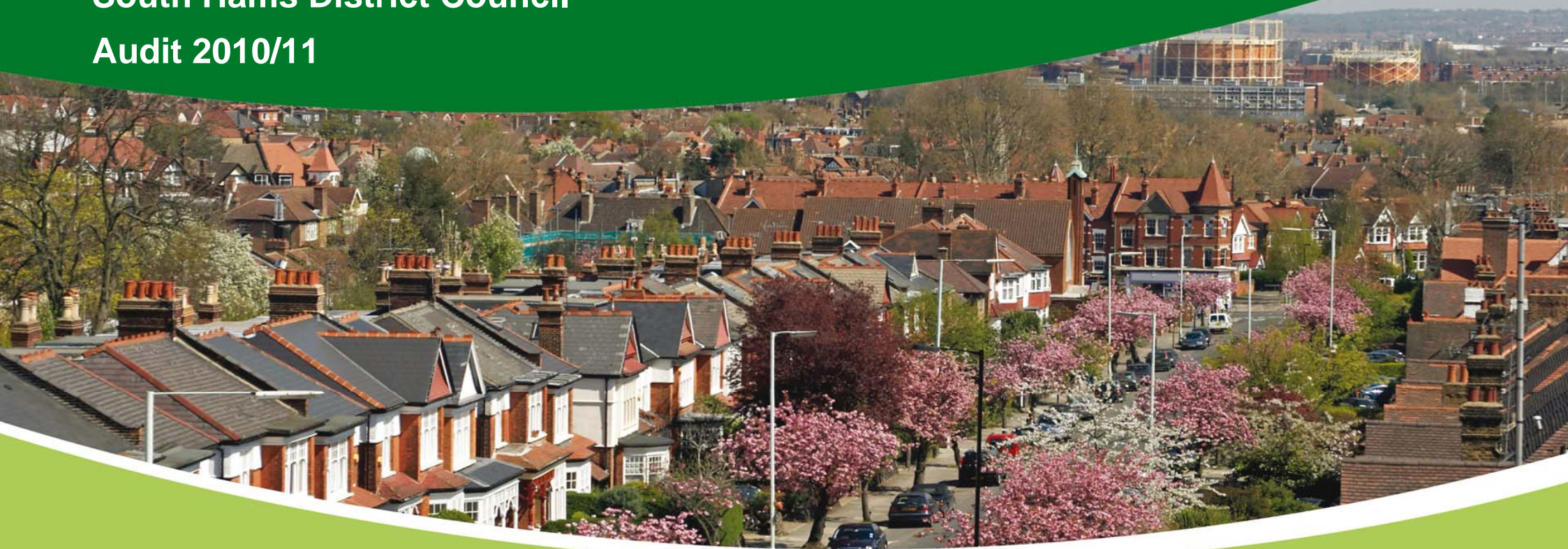


# Annual governance report

South Hams District Council

Audit 2010/11



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# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

Subject to satisfactory clearance of outstanding matters, I propose to issue an unqualified opinion on the financial statements.

My audit identified no material errors and two non-trivial errors in the financial statements:

- The Council has amended one of the errors: £570k incorrect accounting for the revaluation and amalgamation of two building assets, as shown in Appendix 2. There is no overall effect on the Authority's surplus for 2010/11.
- The Council does not plan to amend the 2010/11 accounts for the second non-trivial error: £20k overstated income in advance, as shown in Appendix 3.

I have also identified a number of disclosure errors/omissions, which have been corrected in the accounts (Appendix 2 and page 7).

## Value for money

I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission:

- Financial resilience
- Securing economy, efficiency and effectiveness

I have shown my conclusions for both of these on pages 10-11.

Appendix 1 contains a draft version of my audit report, including my opinion on the financial statements and my value for money conclusion.

B/W symbol key: Red ■ Amber ◆ Green ●

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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## I ask you to confirm to me

### I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - agree your response to the errors identified which management are proposing not to amend (Appendix 3) and include this in the letter of representation; and
  - approve the letter of representation provided alongside this report, on behalf of the Council, before I issue my opinion and conclusion.
-

# Financial statements

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**I propose to issue an unqualified opinion on the financial statements. Appendix 1 includes a draft version of my audit report, including my opinion on the financial statements.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Errors in the financial statements**

I have identified the following errors that the Council has adjusted in the 2010/11 accounts:

- one non-trivial error relating to the incorrect accounting for the revaluation and amalgamation of two building assets (Appendix 2).
- a number of disclosure errors or omissions (Appendix 2 and page 7)

I identified a further non-trivial error, £20k overstated income in advance, that the Council does not plan to adjust in the 2010/11 accounts (Appendix 3).

## **Recommendation**

**R1** I recommend that the Council takes action to address the issues I have raised in relation to quality assurance of the financial statements and the provision of valuation information (pages 7-8).

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# Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

## Key audit risk and our findings

Key audit risk	Finding
<p><b>1. First time adoption of the International Standards on Financial Reporting (IFRS)</b></p> <p>The Council is required to implement new International Financial Reporting Standards in 2010/11.</p>	<ul style="list-style-type: none"><li>• I reviewed the Council's plans for implementing and accounting for the new Standards and liaised with the Council's finance team to review the principles that had been applied in adopting IFRS for the 2010/11 accounts.</li><li>• I carried out audit procedures to ensure that the Authority have made appropriate disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS.</li><li>• I carried out appropriate audit tests on the IFRS compliant accounts to ensure that they are materially correct.</li><li>• As a result I am proposing to give an unqualified opinion on the 2010/11 accounts.</li></ul>
<p><b>2. Fixed assets (property, plant &amp; equipment)</b></p> <p>The Council implemented a new Fixed Assets system in the year of audit.</p>	<ul style="list-style-type: none"><li>• I have carried out appropriate audit tests to ensure that the council's fixed assets are accounted for correctly and that the values recorded in the accounts are materially correct.</li></ul>

# Financial statements

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## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you:

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### Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<p><b>1. Disclosure amendments</b></p> <p>A number of disclosure changes were requested and made during the audit.</p>	<p>The main areas where changes were made were:</p> <ul style="list-style-type: none"><li>■ The disclosure re pension liability estimates was expanded</li><li>■ Comparatives for 01/04/09 were added for material balance sheet notes as required by the Code of Practice</li><li>■ The Council's property, plant &amp; equipment componentisation policy was disclosed in the accounting policies.</li><li>■ A number of further minor changes were made including correction of typos and clarifications.</li></ul>
<p><b>2. Quality</b></p> <p>A number of the disclosure errors and other minor errors could have been picked up by the Council if a more rigorous quality review process had been carried out prior to the accounts being submitted for audit.</p>	<ul style="list-style-type: none"><li>■ More rigorous Quality Assurance checks should be implemented for future years</li></ul>

## Issue

### 3. Valuation information

Standard valuation information was sought from the valuer at the start of the audit but was only provided much later after repeated reminders and with the assistance of service leads.

## Findings and recommendations

- Requested information should be provided early in the audit by the Council's valuer and follow-up valuation queries should be responded to promptly.



# Financial statements

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

The letter of representation will be presented for your approval at the meeting where the Annual Governance Report is received.

# Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p><b>The criterion is met.</b></p> <ul style="list-style-type: none"><li>• The Council agreed a balanced budget for 2011/12 in January 2011, the robustness of which was confirmed by the s151 officer.</li><li>• South Hams has updated its Medium Term Financial Plan in July 2011 and has developed a clear strategy for addressing the pressure on funding.</li><li>• The Council's reserves are adequate and their robustness has been confirmed by the s151 officer</li><li>• The Council's framework of control confirms that the underlying financial and risk management systems are operating effectively.</li></ul>

## Criterion

### 2. Securing economy efficiency and effectiveness

**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Findings

**The criterion is met.**

- The Council continues to perform well overall.
- The 2011/12 budget prioritised resources to meet tighter budget constraints and the strategy adopted with the Medium Term Financial Plan in July 2011 clearly identifies how it plans to target future savings
- The Council's Annual Governance Statement confirms that underlying performance management systems continue to operate effectively.
- There were no issues of concern identified by the Audit Commission's VFM profiles.

# Appendix 1 – Draft audit report

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## **Independent Auditor’s Report to the Members of South Hams District Council**

### Opinion on the Authority’s accounting statements

I have audited the accounting statements of South Hams District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Hams District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of South Hams District Council's affairs as at 31 March 2011 and of its income and expenditure 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.

## Opinion on other matters

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

## Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

### Authority's responsibilities

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.

### Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, South Hams District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## Certificate

I certify that I have completed the audit of the accounts of South Hams District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alun Williams  
District Auditor

Audit Commission  
3-4 Blenheim Court  
Lustleigh Close  
Matford Business Park  
Exeter EX2 8PW

September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Property, plant & equipment (Note 9)	Amended to correct the accounting for the revaluation and amalgamation of two building assets.	570 (MIRS)	570 (NCS planning & development expenditure)	557 (Revaluation reserve)	557 (Capital adjustment account)
Property, plant & equipment (Note 9)	The figures for 'Revaluation increases/(decreases) recognised in the revaluation reserve' and 'Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services' in the PPE note were shown net of depreciation charged to the CIES (understated by £268k).		Affects note only		

**Comprehensive income and expenditure statement**

**Balance sheet**

Property, plant & equipment (Note 9)	The disposal of the harbour debtors system £12k had been misclassified within Land and Buildings as a revaluation – now corrected	Affects note only
2009/10 Balance sheet	A £300k provision was shown in both current and long term liabilities in the 2009/10 comparatives. This is thought to be a typographical error as the net assets total was correctly stated. The figures have been amended.	Amended in 2009/10 balance sheet comparatives
Operating leases (Note 32)	The lease disclosure note did not accord with the Code of Practice ie did not show the future minimum lease payments  Additional disclosures added: Authority as lessee £432k (2010/11), £504k (2009/10) Authority as lessor £34,029k (2010/11), £34,539k (2009/10)	Affects note only
Adjustments between accounting basis and funding basis under regulation (Note 4)	The pensions reserve figures in Note 4 could not be agreed to those in the pensions note (Note 35). Corrected - the amendments had no overall effect on the accounts.	Affects note only



**Comprehensive income and expenditure statement**

**Balance sheet**

Financial Instruments (Note 12)	<p>Monetary assets/liabilities that arise from statute rather than from contract (eg VAT, PAYE, NI) had only been excluded in part from financial instruments.</p> <p>Adjustments made:</p> <p>'Financial assets carried at contract amounts' were adjusted by -£175k to £3,965k (2009/10) and -£97k to £3,358k (2010/11).</p> <p>'Financial liabilities carried at contract amount' were adjusted by £265k to -£3,665k (2009/10) and £248k to -£3,566k (2010/11).</p>	Affects note only		
Salcombe Harbour Income & Expenditure (Note 23)	I&E grossed up for netted-off funding from reserves/grant income +£31k	Affects note only		
Car and boat parking Expenditure (Note 23)	Amended to include share of Follaton House revaluation overhead +£19k	Affects note only		

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Creditors (Balance sheet)	Income received in advance overstated (rent not split between 2010/11 and 2011/12)	20 (extrapolated from actual error £15k)			

# Appendix 4 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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