

# Annual Audit Letter

South Hams District Council

Audit 2010/11



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# Key messages

This report summarises the significant findings from my 2010/11 audit.

My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

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

## Audit opinion and financial statements

I issued an unqualified audit opinion on the financial statements on 29 September 2011. No material errors were identified in the draft statements.

A small number of errors and other amendments to the statements were required and were adjusted during the audit. A number of disclosure changes were also made.

Overall, this was a good achievement given the significant additional requirement this year for Local Government bodies to implement International Financial Reporting Standards – a major project.

## Value for money

I issued an unqualified value for money conclusion for 2010/11.

My VFM conclusion is based on the nationally-set criteria:

- Securing financial resilience – Confirming that the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- Securing and challenging arrangements for economy, efficiency and effectiveness – Confirming that the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

I was satisfied the Council had appropriate arrangements in place to satisfy each of the criteria.

B/W symbol key: Red ■ Amber ◆ Green ●

# Current and future challenges

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## The Council is working in an increasingly demanding environment as funding is restricted.

The Council is facing significant challenges because of the economic downturn. However, it is taking positive action to address these issues.

Below I focus on two of the challenges facing the Council going forward.

Economic downturn and pressure on the public sector

The Council faces significant budget gaps over the next four years as a result of reductions in government funding combined with other financial pressures.

It is addressing this by a strategy which includes:

- Sharing services with West Devon Borough Council
- Identifying other efficiency savings (eg through technology, better procurement, etc)
- Partner working with other organisations
- Rationalising asset use
- Reviews of service provision to identify new ways of working
- Seeking new income opportunities

Significant savings are already being achieved from the senior management review for South Hams and West Devon Councils.

South Hams' share is expected to be in the region of £250,000.

Nevertheless, the challenge remains significant as initial savings opportunities are exhausted and new ones have to be found.

## Partnership working

Despite the distraction of possible local government re-organisation in Devon (which has now been discounted) the Council has achieved a great deal through working with partners – particularly through its work to integrate the provision of services with West Devon.

It has a good track record financially, with annual savings from shared services of over £0.6m, and strengthened quality of services.

The challenge going forward will be to apply the learning from the past few years to service areas where there is currently little or no integration, and to expand partnership working, where appropriate, to include other neighbouring authorities.

# Financial statements and annual governance statement

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

## **Overall conclusion**

I issued an unqualified opinion on the Council's financial statements and annual governance statement on 29 September 2011. Before giving my opinion I reported to those charged with governance (in this case the Audit Committee) on the issues arising from the 2010/11 audit.

The Council prepared its financial statements before the deadline of 30 June 2011. A small number of errors and other amendments to the statements were required and were adjusted during the audit. A number of disclosure changes were also made.

Overall, this was a good achievement given the significant additional requirement this year for Local Government bodies to implement International Financial Reporting Standards – a major project.

In my Annual Governance Report I identified two areas for future improvement:

- A more rigorous quality review process would help to ensure that the number of disclosure and other minor errors in the accounts submitted for audit are reduced.
- Standard valuation information should be made available by the Council's valuer at the start of the audit and queries responded to promptly.

## **Recommendation**

I recommend that the Council takes action to address the issues which I have raised in our Annual Governance Report in relation to future accounts preparation by strengthening quality assurance arrangements and improving the provision of valuation information.

Our memo to management (Report on the Audit of System Controls and Financial Statements) contains an action plan which has been agreed by officers.

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# Value for money

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**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) 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 overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<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 formally confirmed by the chief financial 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 formally confirmed by the chief financial officer</li><li>■ The Council's framework of control confirms that the underlying financial and risk management systems are operating effectively.</li></ul>

## Criterion

## Key messages

### **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.

**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.



# Closing remarks

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I have discussed and agreed this letter with management. I will present this letter at the Audit Committee on 24 November 2011 and will provide copies to members.

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.

Report	Date issued
Audit fee letter (revised to reflect the abolition of CAA and Use of Resources)	July 2010
Opinion audit plan	May 2011
Annual governance report	September 2011
Audit of system controls and financial statements (including IFRS)	November 2011

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

Alun Williams

District Auditor

November 2011

# Appendix 1 – Fees

	£ Actual	£ Proposed	£ Variance
Agreed fee *	99,950	99,950	nil
Non-audit work	nil	nil	nil
Audit Commission refund re IFRS 6%	-6,286	-6,286	nil
Audit Commission refund re Use of Resources 1.5%	-1,499	-1,499	nil
<b>Total</b>	<b>92,165</b>	<b>92,165</b>	<b>nil</b>

\* The agreed fee reflected extra work required to audit the introduction of International Financial Reporting Standards and new Auditing Standards but, in recognition of the financial pressures facing authorities, the Audit Commission refunded these costs, as shown above.

In addition the Audit Commission refunded a further 1.5% in respect of changes to the Use of Resources audit regime.

# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **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.

## **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.

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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