

# Annual Audit Letter

North Somerset Council

Audit 2010/11



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**Traffic light explanation**

Red  Amber  Green 

# Key messages

**This report summarises the 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 opinion on the Councils financial statements.
- My audit resulted in three material changes in the notes to the accounts.
- The Council has satisfactory internal controls but I found that controls in some important financial systems need to be strengthened.

## **Value for money**

- I issued an unqualified value for money conclusion stating the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Current and future challenges

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The Council faces severe financial challenges. Significant progress has been made in assessing how it can continue to deliver quality services with less money.

Financial challenges	<p>In common with many local authorities North Somerset Council will receive significantly less Government funding in the period to 2015. To balance its books the Council must save at least £47.3 million over the period 2011 - 2015. The Council has updated its financial strategy and produced draft plans to achieve these savings.</p> <p>The Council has a good track record in making savings while improving its performance and the quality of its services but the scale of this financial challenge is unprecedented.</p>
Economic downturn	<p>The economic downturn is placing greater financial pressures across local government and public sector. In October 2010 the Government set out its plans for tackling the national deficit over the next four financial years. Local government spending will be reduced by some 25% over this period. The target reduction for local government was more severe than for most other parts of the public sector.</p>
Icelandic bank collapse	<p>In May 2008 the Council deposited £3m with the Icelandic bank- Landsbanki which is now in administration. The Council expects that 95% of this money will be recovered,</p>

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# 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 from the audit

I gave an unqualified opinion on the Council's 2010/11 financial statements on 30 September 2011. In my opinion the financial statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Before giving my opinion I presented my Annual Governance Report to the Audit Committee which summarises the issues arising from our audit.

## Significant issues arising from the Audit

My audit resulted in three material changes to the notes to the accounts:

- Property, Plant and Equipment – a clearer explanation of revaluation losses was added;
- Events after the Reporting Period – the accounts now show the accounting impact of schools awarded academy status after 31 March 2011; and
- Financial Instruments – accrued debtors and creditors are now in the notes to the accounts.

I also reported a number of more minor errors to the Council.

## Significant weaknesses in internal control

Overall the Council has satisfactory internal control arrangements but I did report that some controls in the IT, debtors and creditors systems need management attention. The Council has agreed to develop and action plan for improvement. New financial systems in 2011/12 should address these weaknesses.

## **International Financial Reporting Standards (IFRS)**

The Council had to comply with IFRS for the first time in 2010/11. This involved significant changes to the accounts. The Council successfully implemented IFRS and working papers to support the restated accounts were of a good quality.

## **Looking ahead to 2011/12**

The Council introduced new financial systems on 1 April 2011. We understand that implementation of these systems has been successful and that robust financial controls are being introduced. In conjunction with Internal Audit we will test these systems as part of our 2011/12 audit and report our findings next year.

# 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>Overall conclusion</b></p> <ul style="list-style-type: none"><li>■ The Council has proper arrangements to secure financial resilience.</li></ul> <p><b>Financial governance</b></p> <ul style="list-style-type: none"><li>■ Financial governance and leadership is robust.</li><li>■ Some basic system controls need improvement. New financial systems in 2011/12 should improve this.</li></ul> <p><b>Financial planning</b></p> <ul style="list-style-type: none"><li>■ Arrangements to secure financial resilience over the longer term are satisfactory.</li></ul> <p><b>Financial control</b></p> <ul style="list-style-type: none"><li>■ The Council is spending within available resources.</li><li>■ The Council challenges and monitors its budgets.</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.

## Key messages

### Overall conclusion

- The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

### Prioritising resources

- The Council is reducing costs as part of its medium term financial plans.
- The Council challenges key areas of spend.

### Improving efficiency and productivity

- The Council shows that it is making best use of resources.
- The Council delivers efficiencies when providing services.

### Internal Support Services

- The Council has managed the outsourcing process well.
- The Council has well-defined governance arrangements and it is on course to achieve the savings it has set for the first two years of the contract.
- Performance management and risk management arrangements are in place.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Director of Finance and Resources. I will present this letter at the Executive Committee on 25 October 2011 and will provide copies to all Council 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 fees letter	March 2010
Supplementary plan for the audit of the financial statements	January 2011
Internal support Services review and follow-up	April 2010 and December 2010
Audit opinion	September 2011
Value for money conclusion	September 2011
Annual governance report	September 2011
Annual audit letter	September 2011

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

September 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Scale fee	274,500	274,500	0
<b>Total</b>	<b>274,500</b>	<b>274,500</b>	<b>0</b>

The audit fee charged is in line with the fees agreed with the Council in March 2010.

We will report our fee for the certification of Government grants after this work is complete.

The Audit Commission issued a one-off 'rebate' of £11,561 to the Council which reduced the cost of the audit to £262,399.

# 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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September 2011