

# The Audit Findings for Mendip District Council

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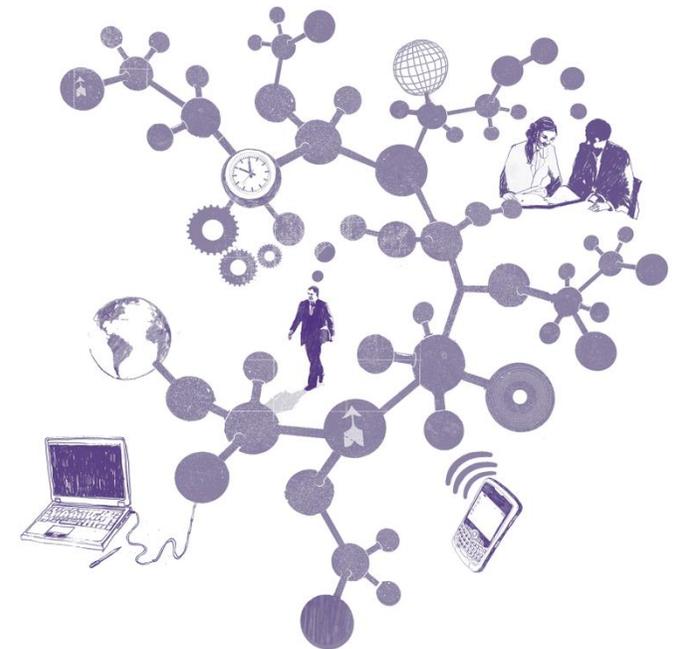
**Year ended 31 March 2014**

22 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Mendip District Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 24 June 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- obtaining and reviewing management and governance letters relating to the Council arrangement's to mitigate fraud
- obtaining and reviewing the final management letter of representation

- complete our review in respect of the Whole of Government Accounts
- complete testing on income attribute testing
- complete our work on the VFM conclusion
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified three adjustments affecting the Council's balance sheet and related notes, although only one of these affected the reported deficit on the provision of services of £1.51m or the net increase in reserves before the transfer to earmarked reserves of £1.06m. This amount was £23,000 as shown on page 15.

We have identified a number of adjustments to improve the presentation of the financial statements. (Details are recorded in section 2 of this report).

The draft financial statements and supporting working papers were generally produced to a good standard and in line with the agreed timetable. However our audit revealed a higher number of errors and adjustments than in previous years.

Further details are set out in section 2 of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

The Council has implemented our recommendations from last year's financial resilience report by developing proposals for meeting its longer term financial pressures, and improving its financial reporting arrangements.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to:

- journal authorisations, income documentation and IT access controls.

Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Group Manager Finance.

We have made a number of recommendations, which are set out in the Action Plan in Appendix A. Recommendations have been discussed and agreed with the Group Manager Finance and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our Audit Plan, presented to the Audit Committee on 15 July 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 15 July 2014.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any significant issues in respect of revenue recognition.</p> <p>However the Council was unable to obtain supporting documentation to support one of the items in our sample. A batch of 13 remittance slips is missing from archives, which includes the remittance slip for this income as reported in the internal control section of this report</p> <p>Through additional procedures we have been able to agree that the Council has received this income. We have also been able to confirm that the amount recorded is correct and appropriately classified in the CIES.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>We report on a weakness in the authorisation and documentation of journals. Details are reported in the internal control section of this report.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Substantive testing of material expenditure streams for the 2013-14 financial year</li> <li>• Substantive testing of significant creditor balances</li> <li>• Review of after date payments to ensure all liabilities identified</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Documented processes and controls and completed walkthroughs</li> <li>• Substantive testing of employee remuneration expenditure</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented processes and controls and completed walkthroughs</li> <li>• Completion of housing and council tax benefits subsidy certification of Audit Commission modules for uprating parameters, analytical review and verifying correct software and reporting procedures used</li> <li>• We have performed attribute tests on a sample of 25 expenditure payments to ensure the council tax support has been correctly calculated and claimant is eligible.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<p>We have undertaken the following work in relation to this risk;</p> <ul style="list-style-type: none"> <li>• Documented processes and controls and completed walkthroughs</li> <li>• Substantive testing of PPE additions</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk;</p> <ul style="list-style-type: none"> <li>• Review of accounting entries in respect of any revaluations to ensure fully and accurately reflected in the accounts</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>Revenue recognition policies for significant income streams adopted by the Council and disclosed within the 2013/14 Statement of Accounts.</p> <ul style="list-style-type: none"> <li>Accounting standard IAS18 (Revenue) is applied in accounting for revenue transactions and events. Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.</li> <li>Grants – Grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: <ul style="list-style-type: none"> <li>the Council will comply with the conditions attached to the payments, and</li> <li>the grants or contributions will be received.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Revenue recognition policies have been reviewed and were determined to be in accordance with the requirements set out in the CIPFA code of practice.</li> <li>Disclosure requirements have been assessed in accordance with CIPFA disclosure checklist and are deemed to be appropriate with the exception that the sentence "Revenue is recognised when it is probable that future economic benefits will flow to the Council and these benefits can be measured reliably" was omitted from the initial disclosure. This was added in the final version.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements are set out in note 7.2 to the Statements. They include : <ul style="list-style-type: none"> <li>useful life of capital equipment</li> <li>pension fund valuations and liabilities</li> <li>PPE valuations and Impairments.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Our review of key estimates and judgements has not highlighted any issues which we wish to bring to your attention.</li> </ul>	 <b>Green</b>

## Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates - PPE</b></p>	<ul style="list-style-type: none"> <li>The basis for revaluations and impairments of PPE assets are set out on pages 35 to 37 of the Statements. Assets are assessed at each year end as to whether there is any indication that they may be impaired. The LG Code of Practice has clarified the requirements for valuing property, plant and equipment. It now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period'. This means a Local Authority will need to satisfy itself that the value of assets in the balance sheet is not materially different from the amount that would be given by a full valuation carried out on the balance sheet date.</li> <li>Page 35 of the accounts shows that the Council has a rolling programme of revaluations. This is based on locations rather than class of assets. In our view, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</li> </ul>	<ul style="list-style-type: none"> <li>We made further enquiries of the valuer to obtain additional evidence that Other Land and Buildings was not materially different from the amount that would be given by a full valuation carried out on the balance sheet date.</li> <li>Accounting policies should be revised to ensure that the value of assets in the balance sheet is not materially different from the amount that would be given by a full valuation carried out on the balance sheet date.</li> <li>We agreed that the approach to rolling valuations should be changed next year to be based on a class of assets.</li> <li>The Council should maintain appropriate evidence to support the valuations as part of the working papers produced for the financial statements.</li> </ul>	<p style="text-align: center;">   <b>Amber</b> </p>

## Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
<b>1 Short Term Debtors</b> - Amendment required to reduce council tax debtors due to incorrectly included amounts - Amendment required to exclude amounts which do not relate to 2013/14 These adjustments were also amended within Note 7.15. This error arose due to incorrect completion of a complex working paper and as a result two journals were posted incorrectly.	£nil £nil	£(1,336) £(128)	£nil £nil
<b>2 Short Term Creditors</b> - Amendment required to reduce council tax creditors due to incorrectly included amounts - Amendment required to exclude amounts which do not relate to 2013/14 - Amendment to include council tax hardship creditor which had been excluded These adjustments were also amended within Note 7.17. This occurred for the same reasons as described in note 7.15.	£nil £nil £23	£1,336 £128 £(23)	£nil £nil £23
<b>Overall impact</b>	<b>£23</b>	<b>£(23)</b>	<b>£23</b>

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure		Precept demands	The amount of the precept demands were incorrectly disclosed in note 8. Somerset CC was disclosed at £37,932,000 and was amended to £37,495,000; Avon and Somerset Police from £6,205,000 to £6,133,000; Devon and Somerset Fire and Rescue Service from £2,783,000 to £2,752,000.
2 Disclosure		Council tax base	The council tax base within note 8.1 had been incorrectly disclosed at 38,217, and should have been 36,498 which led to changes in the reported amounts collected by band.
3 Disclosure		Non-Domestic Rates Rateable value	Amended the Non-Domestic Rates Rateable value within Note 8.2 from £85,063K to £85,134K, which had been incorrectly disclosed.
4 Misclassification	4,500	Cash and Cash Equivalents  Investments	Short term deposits within Note 7.16 have been incorrectly classified within cash and cash equivalents. Reclassification from cash and cash equivalents to short-term investments within Note 7.14. Overall affect on the balance sheet is nil.
5 Disclosure		Financial instruments	Debtors and creditors figures within note 7.15 did not include amounts in relation to appropriate accruals for non-statutory functions.
6 Disclosure		Operating Leases	Within Note 7.32.2 asset values and rental income for Highfield House and Wells Sport Ground were transposed. Amendment also to future minimum lease income which was incorrectly disclosed.

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
11 Disclosure		Contingent Liabilities	Amendment to Note 7.34 to disclose a contingent liability for future business rate appeals yet to be received.
12 Disclosure		Contingent Liabilities	Amendment to Note 7.34 to disclose a contingent liability for the possibility of legal action over the fees charged for certain services that the Council provides under land charges.
13 Disclosure		Officers Remuneration	Additional disclosure required within Note 7.28 to disclose the remuneration of employees who earned more than £50,000 in bands of £5,000 to meet the disclosure requirements of the Code of Practice.
14 Disclosure		Defined Benefit Pension Scheme	2012/13 comparative figures within Note 7.33 and the Pension Reserve have been amended to agree to the figures disclosed in prior year statement of accounts. These figures were restated in the draft statement of accounts though were not material.
15 Disclosure		Defined Benefit Pension Scheme	Additional disclosures and narrative had been included within Note 7.33 to meet the requirements of the Code of Practice.
16 Disclosure		Capital Adjustment Account	Amendment to capital grants figures disclosed within Note 7.20.2. Nil effect on the balance as at 31 March 2014.

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
17 Disclosure		External Audit Costs	The certification fees payable were shown incorrectly in the draft accounts note 7.28 and were amended to reflect the 2013/14 certification indicative fee of £11,000.
18 Disclosure		Related Party Transactions	<p>Amendment to amounts due from related parties within Note 7.30.</p> <ul style="list-style-type: none"> <li>• Amounts due to Central Government remains unchanged</li> <li>• Amounts due to Somerset CC (SCC) amended from £445k to £428k</li> <li>• Amounts due to Somerset Waste Partnership (SWP) included at £17k</li> <li>• Amounts due from central government amended from £425k to £330k</li> <li>• Amounts due from SCC amended from £285k to £261k</li> <li>• Amounts due from to SWP now included £5k .</li> </ul>
19 Disclosure		Related Party Transactions	Somerset Waste Partnership included as a related party within Note 7.30.

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p><b>Journals</b></p> <p>Four journals were identified that were posted by a user who no longer works for the Council. These were 2 posting journals and 2 reversing journals. The journals were originally posted in error.</p> <p>There is no documentation supporting these journals. The impact on the balance sheet is nil.</p>	<p>All journal documentation should be retained for scrutiny.</p>
2.		<p><b>Review of User Access</b></p> <p>There is no formal review of user access to the network, or the Agresso finance systems or remote connections on a regular basis.</p>	<p>A formal process should be implemented to review user access to the network and finance systems on a regular basis to ensure access is appropriate based on job functions and all terminated users have been appropriately removed.</p>

## Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

# Internal controls - continued

	Assessment	Issue and risk	Recommendations
3.	 Amber	<p><b>Audit Log Review.</b></p> <p>There is no documented process to review audit logs in either the finance systems or the network servers.</p> <p>There is a risk that unusual activity or security events taking place within the network and finance applications might not be detected in a timely manner in the absence of such a control.</p>	<p>The logs relating to information security events on each system and the network should be formally reviewed for the purpose of detecting inappropriate or anomalous activity.</p>
4.	 Amber	<p><b>Change and Service Patch Management on Network Servers and desktops</b></p> <p>There is no evidence of change or patch management (reported in 2012/13) processes or procedure in place at Mendip District Council which would ensure that changes, including appropriate security patches, are applied to the servers, desktops and laptops in a structured manner. The purpose of a change and patch management process is to reduce the likelihood of changes or patch implementation causing unexpected or detrimental effects on the network environment.</p>	<p>A change management procedure should be implemented to include:</p> <ul style="list-style-type: none"> <li>• assessment of risk (of making the change or implementing or not implementing the security patch)</li> <li>• appropriate documentation</li> <li>• introduction of a process where changes are reviewed and approved prior to implementation</li> <li>• testing prior to making live</li> <li>• monitoring once implemented</li> </ul>
5	 Amber	<p><b>Income receipts</b></p> <p>Our testing of income identified that one batch 13 remittance slips is missing from archives, which includes the remittance slip for this income.</p>	<p>The Council should maintain appropriate checks on its record system to ensure supporting documentation is retained for all transactions.</p>

## Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance. Issues in red OS – awaiting confirmations

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and been made aware of one housing benefit fraud over £10,000. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for PPE.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We agreed that Somerset Waste Partnership should be included as a related party within Note 7.30. Otherwise we are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council 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.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the Council has adequate arrangements in place to secure financial resilience in the short term.

Over the longer term, the uncertainties in public sector finances will continue to affect the Council and we reported last year on the need for the Council to do more to plan its future priorities and identify the areas in which it plans to secure the savings it needed to make in the period 2014/15 to 2016/17.

We are pleased that the Council has given consideration to this issue and has identified five areas where it believes significant changes will be possible that will lead to the necessary economies. However there is much to do to develop these considerations into workable and deliverable strategies which secure the desired outcomes.

We also made recommendations about improving the presentation of budgetary information and the capital programme last year and again we are pleased to note that these were implemented during the year.

# Value for Money

## **Challenging economy, efficiency and effectiveness**

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has sound processes in place to prioritise resources, and the Cabinet have a good understanding of the impact and outcome of decisions.

The Council implemented a programme of economies during 2013/14 which saved £0.95 in the year with a further £0.18m scheduled to be achieved in the next 18-24 months.

The Council has also been active in identifying proposals for prioritising resources for the future as mentioned previously and has developed a strategy for improving efficiency and productivity which included making efficiency savings in order of priority through:

- transformational and business re-engineering principles
- additional income – maximising income streams to the Council for services rendered
- reducing expenditure in non-priority areas
- other service reductions.

## **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012/13	RAG rating 2013/14
<b>Key indicators of performance</b>	<p>The Council has a liquidity ratio which lies within the preferred range of 2:1.</p> <p>The Council had reserves amounting to £7.4m equal to 12% of gross revenue expenditure at March 2013 which was lower than many comparable councils but nevertheless above its deemed minimum reserve balances. By March 2014 reserves amounted to £6.6m, mainly because of use of capital receipts in the year. The Council has only £0.2m in long term borrowings.</p> <p>In 2012/13 we made recommendations about improved monitoring of sickness. In 2013/14 the average number of days lost per FTE up to end of Q4 was 6.55, compared with a target of 7.5 and the 2012/13 figure of 8.12. This drops to 4.31 days, excluding long term sick, compared to 4.64 as at Q4 2012/13. This showed an improvement over the previous year.</p>	<b>Green</b>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Council annually produces a three-year Medium Term Resource Strategy (MTRS). The MTRS covers financial issues that the Council will face during the three year period. The Council's earlier strategy for dealing with the financial difficulties it is facing included making annual savings, maintaining balances and use of new homes bonus. The Council had determined it would not increase Council tax.</p> <p>The 2014/15 to 2016/17 MTRS was approved by the full Council in February 2014. This included a 3 year plan which showed a cumulative shortfall of £1.7m over three years.</p> <p>The Council has more recently prepared a five year projection which shows a cumulative shortfall of £1.3m in 2015/16, £2.4m in 2016/17, £3.8m in 2017/18, £4.2m in 2018/19 and £4.77m by 2019/20.</p> <p>Last year we reported that the Council's strategy addressed the principles of how the gap will be bridged but there was not yet a rigorous plan for how this will be achieved.</p>	<b>Amber</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012/13	RAG rating 2013/14
<b>Strategic financial planning (continued)</b>	<p>Since then the Council has considered future options and settled on five main strands to form the basis on which future savings will be delivered. However there is much to do to develop these considerations into workable and deliverable strategies which secure the desired economies.</p> <p>The Council planned to use an increasing part of its new homes bonus of £2.01m in 2014/15, £2.5m in 2015/16, and £2.9m in 2016/17 leaving unallocated balances of £0.87m in 2014/15, £0.85m in 2015/16 and £1.24m in 2016/17.</p>	<b>Amber</b>	<b>Green</b>
<b>Financial governance</b>	<p>The Cabinet is made aware of financial matters and receives adequate reports on financial planning, budgets and budget monitoring. There are quarterly performance monitoring reports to Cabinet and Corporate dashboard reports reporting progress on key projects and developments</p> <p>The Audit Commission's VFM profiles show how the Council compares in various areas of activity. Last year we provided Mendip with a summary of these variances. In common with many other councils, Mendip had areas of both high and low costs. We asked the Council to investigate these and the Council commissioned some further analysis from CIPFA which highlighted high costs area and, where appropriate, these areas now feature in the Council's plans to achieve future savings.</p>	<b>Green</b>	<b>Green</b>
<b>Financial control</b>	<p>Last year we recommended that the budget monitoring process should be improved by providing the Council with a summary of the virements and variations between the original budget set and the revised budgets and by reporting the variance against the original budget at the year end. The reporting of actual savings achieved against plans should be improved.</p> <p>These recommendations have been addressed during the year and improvements have been made.</p> <p>Final outturns were reported to the June 2014 Cabinet. These showed that:</p> <ul style="list-style-type: none"> <li>• The Council's actual outturn in 2013/14 was a surplus of £0.05m against budget after making transfers to earmarked reserves of £0.965m.</li> <li>• The Council approved £1.27m of budget reductions for 2013/14. £0.95 of the £1.3m was delivered with a further £0.182m scheduled to be achieved in the next 18-24 months.</li> <li>• The Council also improved its capital planning and introduced a capital programme and capital monitoring against which it achieved an outturn of £4.4m compared to budget of £4.1m.</li> </ul>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012/13	RAG rating 2013/14
<b>Prioritising resources</b>	<p>The Council has been active in identifying proposals for prioritising resources. The Council has shown consistent focus on improving long term sustainable savings not only through major reorganisations but also through it's willingness to outsource functions and work in partnership with other bodies. Many of its services have been outsourced to private sector providers for some time, e.g. finance, revenues and benefits outsourced to Capita, waste to the Somerset Waste Partnership and internal audit is provided by SWAP.</p> <p>The Council has recently completed a major development known as the "Phoenix project". The Council has rationalised and transformed its existing civic and administrative office accommodation to create a public sector hub in Shepton Mallet. This has led to reduced costs and better customer access with Somerset Social Services on site and the Police due to move in shortly. Last year we recommended that the Council firm up on the issues it was going to pursue to address the levels of savings that it had identified were necessary from its medium term financial planning. Since then the Council has considered future options and settled on five main strands to prioritise resources for the future:</p> <ul style="list-style-type: none"> <li>• Review provision of Leisure Services</li> <li>• Generate additional income</li> <li>• Internal restructure of some services</li> <li>• Shared Services</li> <li>• Revise levels Contingencies and Reserves.</li> </ul>	<b>Not reported in last year's financial resilience report</b>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The Council has been successful in making efficiency savings to date with £1.27m of budget reductions planned for 2013/14 of which £0.95 was delivered with a further £0.18m scheduled to be achieved in the next 18-24 months.</p> <p>The Council's strategy for improving efficiency and productivity includes making efficiency savings in order of priority through:</p> <ul style="list-style-type: none"> <li>• transformational/ business re-engineering principles</li> <li>• additional income – maximising income streams to the Council for services rendered;</li> <li>• reducing expenditure in non-priority areas</li> <li>• other service reductions.</li> </ul> <p>As shown on the previous slide the Council has identified that to make future efficiency improvements it needs to concentrate on strategic areas as the opportunities for making piecemeal cuts are now very limited. It has identified five key areas to help it prioritise resources for the future.</p>	<b>Not reported in last year's financial resilience report</b>	<b>Green</b>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<b>Financial control</b>	The Council needs to develop its initial ideas into more detailed savings plans from 2015/16 onwards to deliver the cost reductions required.	<b>Amber</b>

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit.

## Fees

	Per Audit plan £	Actual fees £
Council audit *	65,399	66,299
Grant certification **	11,000	11,000
<b>Total audit fees</b>	<b>76,399</b>	<b>77,299</b>

\* The audit fees are set by the Audit Commission. As there is no longer a certification requirement in respect of business rates, there is a need for additional audit work on material business rates balances and the disclosures in the financial statements. The Audit Commission has approved, a fee variation for this work equivalent to 50% of the average cost by council type of LA01 certification in 2012/13. This amounted to an additional fee of £900 to cover the additional work required on business rates.

\*\* This work is on-going and the final certification fee will be reported later this year in our Annual Certification Report.

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**Significant deficiency** – risk of significant misstatement (SG)

**Deficiency** - risk of inconsequential misstatement (D)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The collection fund working papers should be reviewed and checked to prevent re-occurrence of this error.	SG		
2	All journal documentation should be retained for scrutiny.	SG		
3	Accounting policies to be revised to confirm that the value of assets in the balance sheet is not materially different from the amount that would be given by a full valuation carried out on the balance sheet date.	SG		
4	The Council should provide sufficient valuation evidence in order for us to be able to verify that the value of assets in the balance sheet is not materially different from the amount that would be given by a full valuation carried out on the balance sheet date.	SG		

# Appendix A: Action plan

## Priority

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	A formal process should be implemented to review user access to the network and finance systems on a regular basis to ensure access is appropriate based on job functions and all terminated users have been appropriately removed.	D		
6	The logs relating to information security events on each system and the network should be formally reviewed for the purpose of detecting inappropriate or anomalous activity.	D		
7	<p>A change management procedure is implemented to include:</p> <ul style="list-style-type: none"> <li>• assessment of risk (of making the change or implementing or not implementing the security patch)</li> <li>• appropriate documentation</li> <li>• introduction of a process where changes are reviewed and approved prior to implementation</li> <li>• testing prior to making live</li> <li>• monitoring once implemented</li> </ul>	D		

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MENDIP DISTRICT COUNCIL**

### **Opinion on the Authority financial statements**

We have audited the financial statements of Mendip District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Mendip 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Corporate Financial Advisor and S151 Officer and auditor**

As explained more fully in the Statement of the Corporate Financial Advisor and S151 Officer's responsibilities, the Corporate Financial Advisor and S151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 financial statements sufficient to give reasonable assurance that the financial 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 Corporate Financial Advisor and S151 Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Mendip District Council as at 31 March 2014 and of its expenditure and income 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 2013/14 and applicable law.

### **Opinion on other matters**

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

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

#### **Respective responsibilities of the Authority and the auditor**

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our 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 2013, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Mendip District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

### **Certificate**

We certify that we have completed the audit of the financial statements of Mendip District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alex Walling  
Associate Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Hartwell House, 55-61 Victoria Street, Bristol, BS1 6FT

Date:



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