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South Hams Audit Committee

South Hams District Council

Title:	**Agenda**
Date:	**Thursday, 22nd September, 2016**
Time:	**12.00 pm**
Venue:	**Cary Room - Follaton House**
Full Members:	***Chairman*** Cllr Wingate ***Vice Chairman*** Cllr Pennington *Members:* Cllr Bramble, Cllr Pearce, Cllr Brazil
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 28 JULY 2016

Members in attendance *** Denotes attendance** **Ø Denotes apology for absence**			
*	Cllr I Bramble	*	Cllr J T Pennington (Vice-Chairman)
Ø	Cllr J Brazil	*	Cllr K R H Wingate (Chairman)
*	Cllr J A Pearce		

Members also in attendance:
Cllrs H D Bastone, M J Hicks, T R Holway, P C Smerdon, R J Tucker, L A H Ward and S A E Wright

Item No	**Minute Ref No below refers**	**Officers and Visitors in attendance**
All Items		Section 151 Officer, Deputy Section 151 Officer, Specialist (Accountant Business Partner) and Senior Specialist – Democratic Services

A.9/16 **MINUTES**

The minutes of the meeting held on 30 June 2016 were confirmed as a correct record and signed by the Chairman.

A.10/16 **DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.11/16 **URGENT ITEMS**

The Chairman informed that he had agreed for two urgent items to be raised at this meeting. The first item related to the Council's Draft Budget Book for 2016/17 and the second matter was connected to Business Rates appeals provision. Whilst the Draft Budget Book item was to be considered immediately, the Chairman informed that it was his intention for the Business Rates appeals provision item to be considered in exempt session at the end of this meeting (Minute A.15/16 below refers).

(a) Draft Budget Book 2016/17

It was noted that the Draft Budget Book had been revised, in consultation with a nominated Member Working Group. The revised Budget Book had been circulated to Committee Members for their endorsement prior to its publication.

In discussion, the following points were raised:

(a) Members were advised that the document was pulled together electronically and was a far more efficient means of producing the Budget Book;

(b) A Member was of the view that the Budget Book was still lacking in sufficient detail to enable Members to be able to adequately monitor the Council's finances. In response, officers were able to provide assurances that the information was still contained in the Budget Book, but it was now being presented in a different format. Furthermore, it was acknowledged that part of the confusion arose from how the Budget Book was displayed electronically on Member IPads.

It was then:

RESOLVED

That the Draft Budget Book 2016/17 (as presented to the Committee) should be noted and endorsed for publication.

A.12/16 **DRAFT STATEMENT OF ACCOUNTS 2015/16**

A report was presented that advised that, in line with common practice in the commercial sector, local authorities were now required to approve their accounts following the completion of an audit.

The report also highlighted that an underspend of £69,000 had been generated in 2015/16, which had been transferred to the General Fund Balance (unearmarked revenue reserve).

In discussion, reference was made to:-

(a) the tone of the foreword. In reiterating previously raised concerns, some Members felt that the tone of the foreword gave emphasis to Council success stories and, as a consequence, it should also be more conciliatory and thereby reflective of the difficult year that the Council had endured. In response, the Section 151 Officer explained that the Narrative Statement (which was a new requirement for the 2015/16 Accounts) contained a section on Performance Indicators for the year. In this section, it was explained that performance in some key areas had been below that which should be expected and also that improvement plans had been put in place;

(b) the Waste Transfer Station. For clarity, officers informed that Torbay Transfer Station was used for those properties in the South Hams that were located in closer proximity to Torbay. It was noted that this operational decision was taken in light of costs being directly linked to the distance that waste was being transported;

(c) the Commercial Services variations. When questioned, officers stated that the £103,000 increase in expenditure for Commercial Services was largely as a consequence of higher staffing and agency costs that had been dictated by external market forces. In expanding upon this point, a Member expressed her great concerns over the seemingly ever increasing cost pressures in relation to waste and street cleaning;

(d) the Local Authority Controlled Company (LACC) proposals. Having been informed that Zurich Municipal had undertaken a review (for no charge to the Council) into the strategic risks relating to the LACC proposals, it was **PROPOSED** and **SECONDED** and when put to the vote declared **CARRIED** that this matter be included on the Committee agenda for its next meeting on 22 September 2016;

(e) the average end to end time target for Benefits New Claims. In expressing concerns at the current performance of this indicator, a Member felt that this should be given greater consideration and was of the view that even the prescribed target was excessively long;

(f) planning enforcement cases. Officers confirmed that the Council decision to allocate additional resources for planning enforcement had begun to pay off and the caseload backlog was now reducing;

(g) the Revenue Support Grant. In response to a Member lamenting the loss of the Grant, the Leader advised that both the Local Government Association (LGA) and the District Council Network (DCN) met frequently with the Secretary Of State. During their discussions, LGA and DCN representatives were regularly pressing the need for all local authorities to continue to be in need of this revenue source from Central Government;

(h) the Marine Infrastructure Reserve. A Member highlighted that a £40,000 contribution had been made to this Reserve from Salcombe Harbour Board and made a plea that these monies were ringfenced for projects related to the Kingsbridge / Salcombe Estuary;

(i) the reductions in Coastal Recovery Grant. When questioned, officers advised that they would provide an explanation at the next Audit Committee meeting for this reduction.

It was then:

RESOLVED

That the draft Statement of Accounts for the Financial Year ended 31 March 2016 be noted.

A.13/16 **KPMG INTERIM AUDIT REPORT 2015/16: MANAGEMENT RESPONSE**

The Committee considered a report produced by KPMG that provided the management responses to the key findings arising from the interim audit work undertaken by KPMG at the Council in relation to the Authority's financial statements.

In discussion, reference was made to:-

(a) the review of reconciliations. Whilst a Member expressed his concerns over the risks associated with digital signatures, the majority of Members felt it was right and proper for this recommendation to be explored in more detail;

(b) allocation of shared costs. It was noted that KPMG had reviewed the Council's approach to shared cost allocations and was supportive of the methodology used;

(c) payroll and HR Documentation. Members were informed that this risk was identified in light of KPMG representatives being unable to confirm in every instance that they had reviewed whether a starter and leaver form had been completed.

It was then:

RESOLVED

That the management response to the KPMG Interim Audit Report 2015/16 be noted.

A.14/16 **EXCLUSION OF PUBLIC AND PRESS**

RESOLVED

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following item of business as the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A to the Act is involved.

A.15/16 **BUSINESS RATES APPEALS PROVISION**

As highlighted above (Minute A.11/16 refers), an exempt paper was presented to the Committee that sought its endorsement to support a specific business rate appeal provision.

Following a brief debate, Members proceeded to endorse these proposals.

It was then:

RESOLVED

That the business rate appeal provision (as set out in the exempt paper presented to the Committee) be endorsed.

(Meeting commenced at 2.00 pm and finished at 3.30 pm)

Chairman

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KPMG

External Audit Report 2015/16

South Hams District Council

—

13 September 2016

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

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Scope of this report

This report summarises the key findings arising from:

- Our audit work at South Hams District Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our Interim Audit Report/Letter 2015/16 issued in June 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work and we included early findings in our Interim Audit Report 2015/16. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work. We would particularly like to thank officers for the assistance that they have provided in helping us to familiarise ourselves with the Authority and its processes given that this is our first year as your auditors.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We are pleased to report that we did not identify any material misstatements to the Authority's accounts. We have agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').
Key financial statements audit risks	We identified the following key financial statements audit risks in our 15/16 External audit plan issued in March 2016 as updated in our 15/16 Interim report issued in June 2016. — Allocation of Shared Costs; and — Non-Domestic (Business) Rates Appeals. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. Whilst the approach taken to the calculation of its non-domestic rates appeal is highly cautious in nature, we have reviewed the assumptions behind this and have determined that they are acceptable. No significant issues arose as a result of our work in the above areas. In performing our work, we have paid particular attention to a significant provision relating to a non-domestic rates appeal. We draw your attention to our commentary on this at pages 11 and 14.
Accounts production and audit process	We received complete draft accounts on 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. During the accounts production process officers identified a limited number of corrections required to the prior year accounts in relation to accounting for land assets, capital grant receipts and non-domestic rates. We are satisfied that the Authority has made appropriate adjustments in relation to each of these issues. We will debrief with the finance team to share views on the final accounts audit. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in March 2016. — Achievement of Savings Plans; and — Delivery of the T18 Transformation Programme. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Final elements of work in relation to payroll reconciliations and pensions; — Review of IT policies and procedures; — Final review of full schedule of shared costs; and — Agreement of bank letters (awaiting letters from the Council's banks). You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following: — Appropriateness of the allocation of shared costs; and — Appropriateness of the non-domestic rates provision. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 22 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £1.2 million which is unchanged from that reported to you in our 15/16 External Audit Plan. Audit differences below £60,000 are not considered significant.

We did not identify any material misstatements.

The tables on the right illustrate the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

We identified a number of minor presentational and disclosure adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). The Authority has addressed where agreed, Any not agreed were immaterial and were presentational changes.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of minor comments in respect of its content which the Authority amended.

Movements on the general fund 2015/16	
£m	**£m**
Deficit on the provision of services	(3,276)
Adjustments between accounting basis and funding basis under Regulations	12,642
Transfers from earmarked reserves	(9,297)
Increase in General Fund	**69**

Balance sheet as at 31 March 2016	
£m	**£m**
Property, plant and equipment	73,991
Other long term assets	782
Current assets	33,008
Current liabilities	(18,067)
Long term liabilities	(46,348)
Net worth	**43,366**
General Fund	(1,810)
Other usable reserves	(19,619)
Unusable reserves	(21,937)
Total reserves	**(43,366)**

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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In our *External Audit Plan 2015/16* and *Interim Report 2015/16*, presented to you in March and June 2016 respectively, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant Risk 1 – Allocation of Shared Costs

— Risk

The Authority operates shared management structures, systems and services with its neighbour, West Devon Borough Council. As a result of this arrangement, costs are initially borne by each council individually, and then an exercise is undertaken to ensure that these are shared on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two councils. In order to operate effectively, the allocation of costs must be undertaken on an appropriate basis which reflects the nature of the underlying activities and the way in which the resources are consumed.

— Findings

In our *Interim Report 2015/16* we confirmed that we had reviewed the proposed methodology for the allocation of shared costs.

As part of our final audit visit we reviewed the way in which significant elements of shared costs had been allocated to the Authority and confirmed that this had been undertaken in a manner consistent with both prior year and the proposed methodology. No issues were identified as a result of this.

At the time of issuing this report we are still completing our review of the full shared cost allocation.

Significant audit risks (cont.)

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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Significant Risk 2 – Non-Domestic (Business) Rates Appeals

— Risk

As a result of the localisation of non-domestic rates, the Authority has assumed responsibility in relation to payments arising from valuation appeals. There is currently a potentially significant appeal awaiting conclusion in relation to a property located within the Authority's boundaries. Whilst the exact outcome is still to be determined, there is a risk that the Authority will be liable to significant back payment to 1 April 2010 as well as ongoing reductions to annual non-domestic rates income. As a result the Authority's NNDR3 return for 2015/16 includes a significant increase of £26.7 million in the appeals provision. Whilst this would be shared with Central Government, Devon County Council and Devon & Somerset Fire & Rescue through the Collection Fund, the impact on the Authority would still be material as the Council receives 40% of non-domestic rates income and costs, resulting in the Authority being liable for £10.7 million of the total appeal.

— Findings

In calculating its provision, the Authority has taken account of an appeal relating to a similar property operated within a different part of the country. The initial decision in relation to this appeal was to reduce the rateable value by 100% to £1. Upon appeal, this was revised to a 25% reduction in rateable value. This appeal is still underway however, and the landowner has the option of a further appeal which may result in a further change to the outcome.

Having considered the similar appeal and due to the significant financial risk to the Authority, the Authority has provided for the fact that the result of the appeal within its boundaries could be a 100% reduction in the rateable value of the property in question. This is based upon the ongoing uncertainties as to whether a further appeal will be lodged and what the result of any such appeal will be. This resulted in an overall increase in the appeals provision of £26.7 million being recognised in the Collection Fund and the Authority's share amounting to £10.7 million. Had the provision been calculated based upon a 25% reduction in rateable value, the appeal would be reduced by £8 million from the Authority's current share of £10.7 million.

We reviewed the Authority's methodology for calculating its non-domestic rates appeal provision and the Authority's rationale for its assumption and have determined that, whilst highly cautious, it is not inappropriate under the applicable accounting standards given the continued uncertainty over the final outcome of the related appeal made to the other local authority.

We have also reviewed the accounting entries made by the Authority in relation to the creation of the appeals provision and have confirmed that they follows the requirements of the Code and are based upon the CIPFA model.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. In addition, we gave particular consideration to the allocation of shared costs as set out on Page 10 of this report.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in March 2016, we identified one area of audit focus. This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for this area of audit focus.

Area of focus 1 – Change in revenue accruals de-minimis policy

— Issue

During 2015/16 the Authority has amended its policy in relation to the recognition of revenue accruals. Whereas in prior years a de-minimis of £1,000 was applied, this will be set at £2,500 for 2015/16 onwards

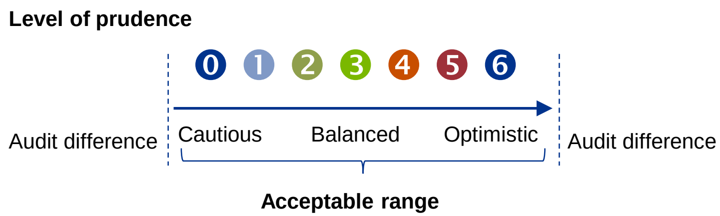
— Findings

We considered the impact that such a change would have had had it been applied to the 2014/15 financial statements and are satisfied that the new threshold should not result in the accounts being unfairly stated. The analysis undertaken to support this assessment indicated that the changed threshold would have reduced debit accruals by £30,251 and credit accruals by £9,119. These amounts are below our triviality reporting thresholds (see Appendix 2)

As part of our final audit work we further considered the change in accruals levels between 2014/15 and 2015/16 and confirmed that the policy change has been accounted for appropriately. As a result of the change in accounting policy, and general movement in balances, the 2015/16 accruals balance was a net debtor of £76,609 (excluding the balance relating to the non-domestic (business) rates safety net payment) compared to a net creditor of £2,105,245. Further details are provided on Page 14.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas

Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
Provisions	0	4	£11.7 million *(PY: £1.0 million)*	The Authority's provisions have increased significantly as a result of the changes to the non-domestic rates appeals provision. As stated on Page 11, this is the result of a significant appeal that is still to be determined. Whilst we consider that the Authority's approach to calculating the provision is highly cautious, it is at the limit of our acceptable range but is acceptable given the degree of uncertainty that remains of the final outcome of the appeal.
Revenue Accruals	3	2	Revenue Debtors: £6.3 million *(PY: £7.7 million)* *Revenue Creditors:* £6.2 million *(PY: £9.9 million)*	The Authority has revised its approach to calculating revenue accruals during the year and has increased its de-minimis threshold. We have compared the new threshold to that applied at other authorities and have confirmed that it is in line with the general approach adopted. Please note that the £6.3 million revenue debtors excludes a debtor of £10.2 million in relation to a non-domestic (business) rates safety net payment.
Property, Plant and Equipment (valuations / asset lives)	3	3	£74.0 million *(PY: £73.2 million)*	We identified no issues in relation to the way in which the Authority calculates the carrying value of its Property, Plant and Equipment assets. The useful lives are in line with expectation and appropriately qualified experts are used in order to provide valuations.
Pensions	3	3	£42.5 million *(PY: £46.7 million)*	We identified no issues in relation to the way in which the Authority calculates its pensions liability. The Authority has engaged an appropriately qualified actuarial expert in order to perform the pensions calculations.

Accounts production and audit process

We note that the quality of the accounts and the supporting working papers was of a high standard.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has a strong financial reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in May 2016 and discussed with the finance team, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Narrative statement

The production of a narrative statement was a new requirement for 2015/16 (as opposed to the explanatory foreword produced in prior years). Whilst the content of the narrative foreword is not covered by our opinion, we review it for consistency with the financial statements and consider it in the context of the new Audit & Accountability Regulation requirements.

The Authority provided a draft narrative statement on 30 June 2016 and we note that it was a good draft which included a range of non-financial information in line with the applicable content requirements.

Prior period adjustments

In preparing the draft financial statements, the Authority identified a number of areas where corrections were required to the figures reported in the 2014/15 financial statements. These related to:

- The non-domestic rates appeal provision being held in creditors; and
- Monies recognised as capital grant income which should have been treated as being received on an agency basis and had subsequently been paid over to the end recipient.

We reviewed the accounting adjustments being made in relation to each of the above errors and are satisfied that they are appropriate.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

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Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of South Hams District Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and South Hams District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix three in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Finance Community of Practice Lead for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested specific representations in relation to:

- The appropriateness of the allocation of shared costs; and
- The appropriateness of the non-domestic rates provision.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

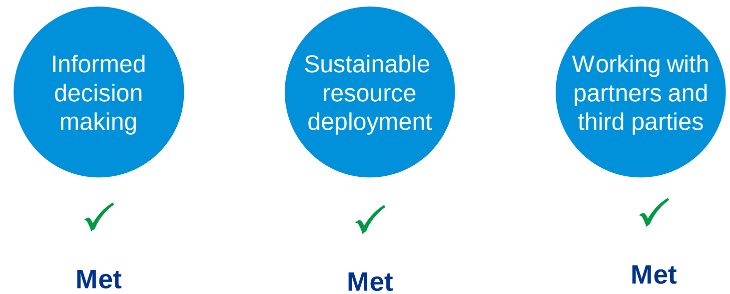
These sub-criteria provide a focus to our VFM work at the Authority.

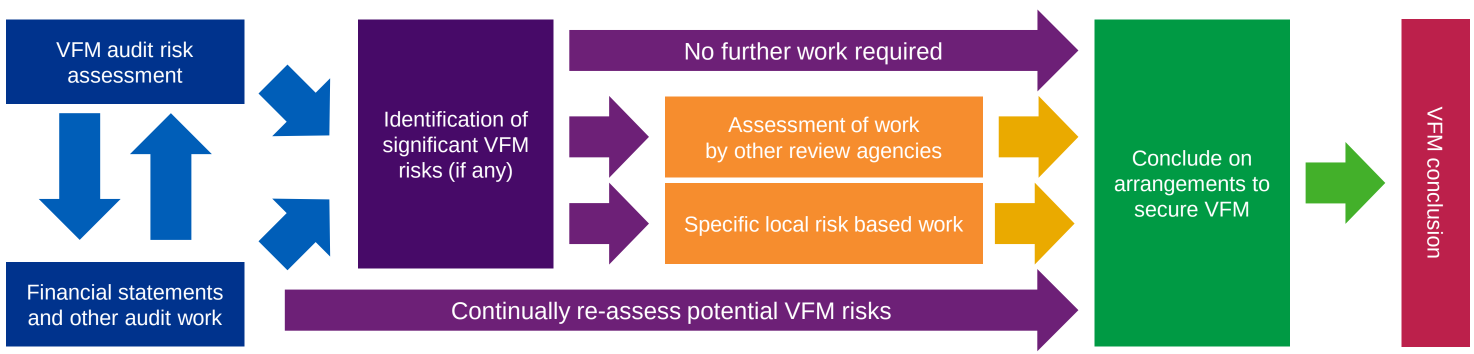
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





Specific VFM Risks

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

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Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this on the following pages.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

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Key VFM risk	Risk description and link to VFM conclusion	Assessment
Achievement of Savings Plans	The Authority identified the need to make savings of £2.3m in 2015/16. When we undertook our planning work the forecast (as contained in the December 2015 Budget Monitoring Report) showed that the Authority would deliver an overspend of approximately £70,000. The March 2016 budget monitoring report updated this to an overspend of £45,000. The Authority's budget for 2016/17 forecasts a budget surplus of £767,995 as a result of the full savings being realised in relation to the ongoing transformation plan and due to the additional Rural Services Delivery Grant that the Council has been allocated in 2016-17 by Central Government. Subsequent years show further funding gaps however, resulting in a total net budget gap of £1,009,835 for the period to 2020/21 being identified in the February 2016 Budget Report. Further significant savings will be required in 2017/18 onwards to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience. This is relevant to the **informed decision making** and **sustainable resource deployment** sub-criteria of the VFM conclusion.	**Specific risk based work required:** Yes The Authority has delivered an outturn of £69k underspend against the approved budget for 2015/16 as a result of: — Additional net savings and additional income in relation to delivery of services (£31k); — Additional interest and investment income generated during the year (£32k); and — An increase in the level of Formal Grant received (£6k) The Authority identified savings throughout its operations and monitored the delivery of these through its regular financial monitoring processes. Whilst overspends were identified in relation to a number of specific services, these were offset by additional savings identified during the year.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

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Key VFM risk	Risk description and link to VFM conclusion	Assessment
Delivery of the T18 Transformation programme	As part of its response to the central government funding reductions, and in order to improve the efficiency of its operations, the Authority has initiated a major transformation programme ("T18"). This programme results in significant changes to the way in which services are delivered and back office functions undertaken. As part of the transformation programme, all staff roles and responsibilities have been redefined and a more unified model has been developed whereby staff act as key points of contact for service users and work across services rather than operating as separate teams. The establishment of this new working model has resulted in significant one-off investment costs, both in terms of redundancy costs and those relating to the establishment of new processes and delivery structures. The Authority expects that such costs will be exceeded by the ongoing recurrent annual savings that will be achieved by way of the programme. The predicted payback period of the programme is 2.5 years. This is relevant to the **informed decision making**, **sustainable resource deployment** and **working with partners and third parties** sub-criteria of the VFM conclusion.	The Authority's internal audit service undertook a review of the processes relating to the management of the T18 Transformation Programme. Whilst this identified a number of recommendations for improvement, no significant issues were reported. **Specific risk based work required:** Yes We reviewed the various committee and executive reports relating to the T18 Transformation and confirmed that Members had been appropriately informed of the progress of the programme throughout the year. The implementation of the T18 programme has not been without challenges, particularly in relation to the implementation of appropriate IT solutions to support the new working arrangements. The Authority is continuing to make progress in relation to this. We note, that there has been a need to make additional investments in relation to the programme above those initially set out in the business plan. This was in the form of additional fixed term temporary transitional staffing resources of £546,000. As a result of this, the benefits of the programme have not been realised as early as hoped and this additional cost has added two months to the payback period of the programme. This investment was subject to appropriate approval within the Authority.

Appendices

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

We are pleased to report that there are no corrected audit differences.

A number of minor amendments focused on presentational improvements have been made to the draft financial statements of the Authority.

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.2 million for the Authority's accounts.

We have reported all audit differences over £60,000 for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in March 2015.

Materiality for the Authority's accounts was set at £1.2 million which equates to around 1.6 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

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Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of South Hams District Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and South Hams District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit was £43,404 plus VAT (£57,872 charged in 2014/15 by Grant Thornton). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our planned scale fee for certification for the HBCOUNT is £7,670 plus VAT and will be confirmed in our *Grant Certification Report*.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Provision of Audit Committee training seminar in relating to budget monitoring and financial planning. (to be delivered in October 2016)	£1,500	**Self interest** – This engagement is separate from the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that have been deployed to perform a robust and thorough audit. **Self review** – The nature of this work is to provide training to Members in order to enable them to make decisions in a fully informed manner. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. **Management threat** – This work will be training only, all decisions will continue to be made by the Authority. **Familiarity** – This threat is limited given the scale, nature and timing of the work. **Advocacy** – not applicable **Intimidation** – not applicable
Total estimated fees	**£1,500**	
Total estimated fees as a percentage of the external audit fees	**3%**	

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to 'Regulatory Information' at www.kpmg.com/uk

Report to:	**Audit Committee**
Date:	**22 September 2016**
Title:	**Annual Statement of Accounts 2015/2016**
Portfolio Area:	**Support Services – Cllr S Wright**
Wards Affected:	**All**

Relevant Scrutiny Committee: **Internal**

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Author: **Pauline Henstock** Role: **Finance Business Partner**

Contact: **Tel. 01803 861377**
E-mail: pauline.henstock@swdevon.gov.uk

Recommendations:

It is recommended that Members approve:

1. The wording of the Letter of Representation (Appendix A)
2. The audited Statement of Accounts for the financial year ended 31 March 2016 (Appendix B).

1. Executive summary

1) This report presents a summary of net revenue and capital expenditure for Members consideration and seeks approval of the audited Statement of Accounts for 2015/16. **Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the Finance Community of Practice Lead (S151 Officer) are required to sign the Letter of Representation.**

2. Background

1) The Accounts and Audit (England) Regulations 2015 set out the requirements for the production and publication of the local authority's annual Statement of Accounts (SOA). These regulations introduced revised procedures for the certification, approval and publication of accounting statements. In particular, the requirement for Councils to approve the SOA prior to external audit is removed. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.

2) The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.

3) The attached booklet (Appendix B) contains the Council's Final Accounts in full, including details of the Comprehensive Income and Expenditure Account, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow. In addition, the Explanatory Foreword to the booklet summarises the major variations in income and expenditure from the original budget.

4) The accounts have been prepared in accordance with all relevant and appropriate accounting standards including, International Accounting Standard (IAS) 19 which deals with pension costs. This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's SOA. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.

3. Outcomes/outputs

1) **Revenue Expenditure**
Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, business rates, fees and charges, government grants and interest earned on investment activity. The surplus on the General Fund in 2015/2016 of £69,000 is essentially a break-even position and represents less than 0.1% of the Council's gross turnover of £75m. The main differences from budget are shown in paragraph 6 of the Narrative Statement in the SOA.

2) **Capital Expenditure**
Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £4.4m in 2015/16, and is analysed in paragraph 19 of the Narrative Statement in the SOA.

3) **Audit of Accounts**
The draft SOA was considered by the Audit Committee on 28 July 2016. These accounts are required to be audited by the Council's external auditors, who give their opinion on the draft accounts. The annual audit was undertaken during July and August 2016 by KPMG LLP. Post audit changes have been incorporated within the SOA in line with the recommendations contained within their 'Audit Findings Report'.

4. Proposed Way Forward

1) The Council Constitution delegates approval of the Accounts to the Audit Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit Committee and the Finance Community of Practice Lead (S151 Officer) are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015
Financial	Y	The financial implications to this report are that a surplus of £69,000 was generated in 2015/2016.
Risk	Y	1) **Public Accountability** – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is recognised by statute as representing proper accounting practice. 2) **Resource Planning** – the Executive takes into account any significant issues when developing the Council's Medium Term Financial Strategy.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.

Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

<u>Supporting Information</u>

Appendix A – Letter of Representation.
Appendix B – Statement of Accounts 2015/16
Appendix C – Annual Governance Statement
Background Papers:
Finance Community of Practice final accounts working papers.
Audit Committee 28 July 2016 - Draft Statement of Accounts 2015/16.

South Hams District Council

Follaton House, Plymouth Road, Totnes, Devon TQ9 5NE
Telephone: **(01803) 861234** DX 300050 TOTNES 2
Fax: (01803) 866151

APPENDIX A

Please reply to: Mrs L Buckle
E-Mail: lisa.buckle@swdevon.gov.uk

Date: 22nd September 2016

Our ref: LSB

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of South Hams District Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and
ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial 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.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
    ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. In respect of the restatement made to correct material misstatements in the prior period financial statements relating to accounting for capital grants and non-domestic rates appeals provisions, the Authority confirms that the restatement is appropriate.

Information provided

5. The Authority has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

    i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii) The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.

b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that are:
- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

13. The Authority confirms that the allocation of shared costs has been undertaken on an appropriate basis.

14. The Authority confirms that the provision recognised in relation to non-domestic rates appeals is deemed to be appropriate and reasonable and has been calculated based upon the most recent information available to management.

This letter was tabled and agreed at the meeting of the Audit Committee on 22 September 2016.

Yours faithfully,

Councillor K Wingate - Chair of the Audit Committee
Mrs Lisa Buckle – Finance Community of Practice Lead (S151 Officer)
cc: Members of the Audit Committee

(To be signed upon approval of the content of the letter of representation by the Audit Committee)

Appendix to the Authority Representation Letter of South Hams District Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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South Hams District Council Audited Statement of Accounts 2015/2016

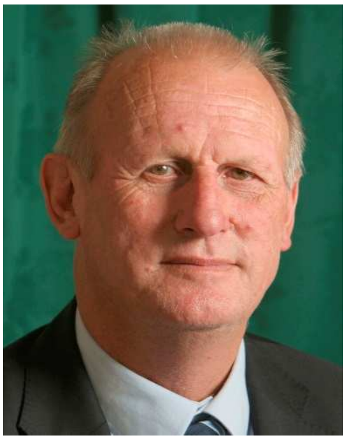
Contents

Statement of Accounts 2015-16
The Statement of Accounts 2015-16 can be made available in large print, Braille, tape format or other languages upon request.
South Hams District Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.

Section *1*

Narrative Statement

Introduction to the 2015/16 Statement of Accounts by Councillor Tucker, Leader of South Hams District Council



I am very pleased to welcome you to South Hams District Council's Statement of Accounts for 2015/16. This has been a challenging year as the organisation has changed the way in which it works.

South Hams District Council and West Devon Borough Council have been shared service partners since 2007. Together the Authorities have challenged the traditional local government model and have been at the forefront of radical change and innovation.

In September 2014 the first phase of the Councils Transformation Programme (T18) went live. This was followed by the main phase in June 2015. The non-manual workforce is now 30% smaller, with all staff roles being more flexible and responsive to the needs of the customer.

The investment budget for T18 is £4.61 million (this is South Hams share of the cost) which is delivering recurring annual savings for South Hams of £3.37 million with a payback period of 2.5 years. This investment has meant that the Council is now well placed to meet the continued financial challenges brought about by year on year reductions in Local Government funding. There is still more to be done but the Council has established a solid base from which to meet the forecast budget gap of £1.01 million by 2020/2021. The organisation has become more commercial in its approach whilst continuing to protect its much valued services.

The year has also seen the Council develop a strategic plan for our community. 'Our Plan' sets out eight key priorities and details the practical actions required to achieve the ambitions we have for our communities. Plymouth City, South Hams, West Devon and Dartmoor National Park are working together to develop a Joint Local Plan. Work on this plan is due to be completed by early 2017.

I would like to take this opportunity to acknowledge the hard work that has gone into the monitoring and managing of the budget throughout the year by both staff and Members. This has resulted in a surplus of £69,000 which is essentially a break-even position. This prudent management of our finances alongside strategic financial planning has enabled the Council to make fully informed decisions and to deliver the quality of services that our residents, visitors and businesses have every right to expect. The financial standing of the Council, despite the challenges we face, remains sound and secure.

The Council continues to do everything it can to make sure that residents, businesses and front-line services come first.

Councillor Tucker, Leader of the Council

Foreword by the Executive Director, Strategy and Commissioning, (Head of Paid Service) – Steve Jorden

In early 2015 a completely new leadership team was appointed by Members to lead the organisation through the Transformation Programme, become more customer-focused, save money, and explore ways of generating income for the Council.

I am proud to have been part of the new team appointed and I took up my role in February 2015. South Hams and West Devon Councils are led by a small leadership team consisting of two Executive Directors and three Group Managers. The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council set by Members.

In recognition of the early successes of the Councils' innovative Transformation Programme, South Hams and West Devon achieved national recognition as Council of the Year for 2016 at the recent iESE (the Improvement & Efficiency Social Enterprise) Awards and a gold award in the category "Transforming Through People". In addition, the Councils are a finalist in the "Workforce Transformation" category in the up and coming Municipal Journal Awards.

These successes are a reflection of the significant changes and progress both Councils have made in designing services for the future; successes of which Members and staff should be rightly proud.

By 2018/19 the Council will receive no Government funding (Revenue Support Grant) and the Council will need to be self-sufficient. The withdrawal of Government funding has happened two years earlier than expected. Since 2013, the Council has seen a 40% reduction in Government funding.

In this financial climate, income generation becomes a key priority area. The Council will continue to maximise its current sources of income through business development, ensuring the maximum utilisation of our assets, identifying new income streams, and actively pursuing all opportunities to increase the resources available and further reduce costs.

Steve Jorden, Executive Director (Strategy and Commissioning)

Message from the Finance Community of Practice Lead (Section 151 Officer) - Lisa Buckle

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The Accounts provide reassurance to residents and other stakeholders that the public money for which we are responsible is very important to us and has been accounted for properly.

The financial standing of the Council continues to be robust. We have embedded financial management disciplines, processes and procedures.

The aim of the Accounts is to enable members of the public, residents, Council Members, partners, stakeholders and other interested parties to:

- Understand the financial position of the Council as at 31 March 2016 and how the Council has performed against the budget set for 2015/16.

- Be assured that the financial position of the Council is sound and secure and that the Council can demonstrate financial resilience moving forwards.

This Narrative Report (previously the Explanatory Foreword) provides information about South Hams, including the key issues affecting the Council and its Accounts. This gives a general guide to the significant matters reported in the financial statements and provides a summary of the overall financial position at 31 March 2016.

The following pages explain the Council's financial position and include further details of the Authority's activities, cash flows and reserves.

Looking forward, 2016/17 will see the Finance Team progressing the Finance Self Service initiative. The Team will adopt the Business Partnering approach, championed by the Transformation Programme, to enable budget holders to access and monitor their own financial data. This will further embed the principles of the T18 model and drive efficiencies.

In 2015/16 the Council has dealt with a significant amount of change with its Transformation Programme and is in a strong financial position. The Council has sufficient reserves and balances to provide financial resilience for 2016/17 and future years.

Mrs Lisa Buckle BSc (Hons), ACA
Finance Community of Practice Lead (Section 151 Officer)

NARRATIVE REPORT – INTRODUCTION

1. Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published.

REVIEW OF THE YEAR – THE REVENUE BUDGET

2. *The 2015/16 budget for South Hams was £8.84 million. A saving of £69,000 means that the actual spend was 0.8% less than the budget. This saving will go into the Council's Unearmarked Reserves which now stand at £1.8 million.* The main components of the General Fund budget for 2015/16 and how these compare with actual income and expenditure are set out below:

	Estimate £000	**Actual £000**	**Difference Cost/ (Saving) £000**
Cost of services (after allowing for income and reserve contributions)	8,962	8,931	(31)
Parish precepts	1,682	1,682	-
Interest and Investment income	(123)	(155)	(32)
Amount to be met from Government grants and taxation	**10,521**	**10,458**	**(63)**
Financed from:			
Revenue Support Grant	(1,406)	(1,412)	(6)
Business Rates	(1,952)	(1,952)	-
Council tax	(7,005)	(7,005)	-
Council tax freeze grant	(58)	(58)	-
Surplus on collection fund	(100)	(100)	-
SURPLUS FOR 2015/16	**-**	**(69)**	**(69)**

3. This surplus is shown in the Movement In Reserves Statement in Section 2A and can be summarised as follows:

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2015	(1,741)
Surplus for the 2015/16 financial year	**(69)**
General Fund Balance (un-earmarked revenue reserve) at 31 March 2016	(1,810)

4. The surplus on the General Fund of £69,000 is essentially a break-even position and represents 0.1% of the Council's gross turnover of £75 million.

5. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the reported Surplus for the 2015/16 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	**(3,543)**
Surplus on the revaluation of Property, Plant and Equipment	214
Remeasurements of the net defined benefit pension liability	6,605
Transfers to earmarked reserves	9,297
The detail of the items below are shown in Note 4 'Adjustments between Accounting Basis and Funding Basis under Regulations'	
Adjustments primarily involving the Capital Adjustment Account	(446)
Adjustments primarily involving the Capital Grants Unapplied Account	29
Adjustments primarily involving the Capital Receipts Reserve	401
Adjustments primarily involving the Pensions Reserve	(2,388)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	7
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	(10,258)
Adjustments primarily involving the Accumulated Absences Account	13
Surplus for the 2015/16 financial year	**(69)**

6. A summary of the main differences from budget in 2015/16 is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reduction in income	
Recycling income – Reduction in income following significant changes in the market which was subject to external factors such as the closure of a major paper mill and a change in oil prices. The Council's material prices are tracked according to market values. The yield was lower than that budgeted at the time of the waste review. This is a 22% reduction under the budgeted income target for 2015/16 of £925,000.	208
Commercial Services - Manual workers' salaries – Staffing and agency costs for waste and recycling, street and beach cleaning and public conveniences are overspent by 4.9% against the budget of £2.1 million. This is due to the implementation of the living wage and includes the consolidation of bonuses for the manual workforce. There has been an increase in agency drivers' rates and additional costs to cover long term sickness and holiday.	103
Street Cleaning - Projected savings of £95,000 have not been met in 2015/16 due to having part time interim management in the waste operations team. The focus had to remain on statutory service delivery and legally required transport and waste related duties. A delay in implementing the scheduled efficiencies via a more mechanically focused service for cleansing has resulted. The new mechanical equipment has now been procured and received to realise the savings within 2016/2017.	95
Trade Waste – This reflects the increase in disposal costs and tipping charges, which occurred after the fees and charges were set. There have also been legislative changes adversely affecting the service.	95
Follaton House – There have been delays in tenants moving in. In addition, savings from reduced running costs at Follaton House following agile working, the smarter use of energy and utilities and the workforce occupying less space have not yet all been realised.	82
Dartmouth Ferry – Shortfall of income of 8% from budgeted income levels of £907,000. Indications are that not all of the business lost during the 2013 period of the ferry being out of action (due to essential slipway maintenance) has returned.	72
Waste transfer station – The costs of haulage of organic and residual waste from both Torbay Transfer station and Torr Quarry Transfer Station to Heathfield IVC and MVV continued to rise.	69
Licensing income – Shortfall in crab licensing income.	19
Private water sampling – Shortfall of income.	17

ANALYSIS OF VARIATIONS	£000
Pannier Markets – Shortfall of income.	13
Municipal Mutual Insurance – The second levy payable by all scheme creditors following the trigger of the Scheme of Arrangement.	12
Reductions in expenditure/additional income	
Planning Applications – Additional income due to a number of large applications for renewable energy.	(212)
Car parking income – A change in accounting treatment from an accruals basis to a cash basis for car parking permit income.	(175)
Local Land Charges - Property search new burdens grant – A reimbursement from the Government for the costs of the national legal case regarding land charges.	(97)
Land and Investment Properties Easement income – One off receipts in respect of easements over Council land.	(85)
Heritable Dividend – Further dividend from the Heritable Bank, a subsidiary of Landsbanki, one of the Icelandic Banks affected by the world economic crisis. 98% of the £1.25 million invested by the Council in September 2008 has now been recovered (see note 9).	(50)
Employment Estates income – Additional income mainly in respect of boat launch fees, landing charges and rents. There were also underspends on utilities.	(47)
Homelessness prevention – The Council receives a Government grant towards the cost of homelessness prevention. The Council has predominantly funded homelessness costs through the Local Welfare Support Grant which has reduced the amount spent against the Government grant.	(45)
Members' Allowances and travel expenses – In May 2015 the number of Members reduced from 40 to 31 resulting in a saving on Member Allowances and travel expenses.	(43)
Housing Benefit recoveries – Additional income from the recovery of overpayments.	(36)
Additional investment income – The Council has secured a better rate for Money Market Fund investments that are used to manage day to day cashflows. In addition, the use of fixed term deals with the Banks available to lend to on the Council's current agreed Counterparty list has improved.	(32)
Private Sector Housing Renewal – Underspend on professional fees.	(15)
Small underspends	(17)
TOTAL SURPLUS FOR 2015/16	**(69)**

The 2015/16 budget for South Hams was £8.84 million but the actual spend was 0.8% lower, providing a saving of £69,000 as shown above.

KEY AREAS TO NOTE FROM THE 2015/16 STATEMENT OF ACCOUNTS

Pension Liability

7. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.

8. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2016 of £42.5million. This compares to £46.7million as at 31 March 2015. The deficit is derived by calculating the pension assets and liabilities at 31 March 2016. See Note 31 for further information.

Icelandic Banks

9. The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank which is a subsidiary of Landsbanki, one of the Icelandic Banks that was affected by the world economic crisis. Of this amount £1,227,517 (98%) has already been repaid to the Council by the Administrators. At the 31 March 2016, the Council had £22,483 frozen in the Heritable Bank.

10. At the time the deposit was placed, the risk rating of Heritable was ‘A’ (long term deposits) and F1 (short term deposits). Both ratings indicated low risk and were within the deposit policy approved by the Council. Heritable Bank is registered in Scotland with an address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank’s shares are owned by Icelandic bank, Landsbanki.

11. Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid fifteen dividends amounting to 98% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

Business Rates

12. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if a Council’s income from business rates falls due to successful business rates appeals.

13. The Council took a decision to withdraw from the Devon wide Business Rates Pool for 2015/16, due to the risk of some large Business Rates appeals. If the Council had remained in the Pool, the Council would not receive a safety net payment from the Government if its Business Rate income fell by more than 7.5%. This financial burden would have fallen on all of the Devon Councils if South Hams had remained in the Pool and this financial risk was deemed too high.

14. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value. The Council had some significant appeals outstanding at the year end.

15. In 2015/16 there has been a £26.7 million increase in the provision for appeals within the Collection Fund. This has resulted in a deficit in the Business Rates Collection Fund of £26 million. South Hams District Council's share of the deficit is 40% (£10.4 million).

16. The Council will need to pay additional sums into the Collection Fund in future years to bring the Fund back into balance. Monies have been set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of this in future years and to fund volatility in Business Rates income. The balance on this reserve is £9.9 million at 31 March 2016 which is mainly due to the Council accounting for a safety net payment of £9.9 million in 2015/16. Depending on when and at what value the appeals are settled, the Council will either receive future years' safety net payments or will be able to use resources from the £26.7 million added to the appeals provision to offset any remaining Collection Fund deficit.

Trading Company

17. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2015/16 and a set of statutory Accounts will be filed with Companies House for the period 1 April 2015 to 31 March 2016. The future of Servaco Limited is likely to be reviewed during 2016/17 alongside the consideration of establishing a Local Authority Controlled Company.

Borrowing

18. As at 31 March 2016 the Council had no external borrowing.

Capital spending

19. The Council spent £4.4m on capital projects. The main areas of expenditure were as follows:

    - scheduled replacement of plant and vehicles (£2.0m)
    - capital grants including coastal defence schemes and affordable housing schemes (£1.1m)
    - house renovation grants including disabled facilities grants (£0.4m)
    - refurbishment of HQ Building (£0.2m) – £0.16m of this amount is funded by the Transformation Programme accommodation budget
    - coastal defence schemes (£0.2m)

    The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 28).

FINANCIAL NEEDS AND RESOURCES

20. The Authority maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.

21. Revenue reserves (which include earmarked reserves) have increased by £9.4m from the preceding year and stand at £17.3m at 31 March 2016. This reflects the increase in the Business Rates Retention Reserve from the business rates safety net payment of £9.86 million in 15/16 (as detailed in 16 above).

22. The General Fund Balance (un-earmarked reserve) has increased by £69,000 in 2015/16 and totals £1.8m. Revenue reserves may be used to finance capital or revenue spending plans.

23. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2016 amounts to £4.2m compared to £4.8m at the end of the previous year.

24. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure.

25. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £42.5 million at 31 March 2016. This disclosure follows the implementation of the International Reporting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.

26. It is important to gain an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a “snapshot” of pension assets and liabilities at the year end. This is quite different from the valuation basis used for the purposes of establishing the employer’s contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years.

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

27. Overall, the Council’s finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets and that all three elements of value for money (economy, efficiency and effectiveness) are achieved for our residents. In addition, a planning mechanism is in place, focusing not only on one year, but also on the longer term. The Council’s Medium Term Financial Strategy (covering a five year period) will be considered by the Executive at its September 2016 meeting.

Local Authority Controlled Company

28. The Council is considering the establishment of a company which would be wholly owned by South Hams and West Devon Councils, to deliver the full range of District Council services. In doing so, it is anticipated that this would create an opportunity to sell these services to other organisations to generate income. Council agreed that a detailed business case and implementation plan be produced to enable further consideration of the merits of establishing a Local Authority Controlled Company jointly with West Devon Borough Council.

Transformation Programme (T18)

29. The Council will continue embedding the IMPACT behaviours and attitudes to ensure T18 continues to progress and a new and innovative way of working is created. This in itself will create revenue as the Council will be ideally placed to not only weather the increasing financial

constraints placed upon it but will also be ideally suited to offer those services to other Councils who are not as ably prepared.

Developing our Assets

30. South Hams currently runs its commercial property portfolio to generate a revenue stream for the Council. In accordance with its recently updated Asset Management Strategy, the Council has agreed to increase the portfolio size over time, by developing sites in the Council's ownership.

31. The Council is actively pursuing this strategy in order to increase its asset utilisation, seek efficiencies, and generate recurrent income streams. A number of projects across both Councils have been instigated and will begin to deliver significant benefits in the coming years.

Channel shift in 2016/17

32. For the coming year, we will continue with a greater emphasis on 'digital by choice' with nearly all processes available to be completed online via any interface. A revamp of the Council's website will enable customers to find it easier to locate the information they require or to perform any task. Key high volume services (e.g. Council Tax account or Housing Benefit applications) will be available online, offering customers easy access to the information they need and therefore reducing the need to contact us over the phone. However, if they do wish to contact us by phone, a new contact centre phone system, which includes the ability to offer customers webchat, will be live later this year. The system will enable the Council to provide a more responsive and adaptable service to our customers.

Devolution

33. The Council plays an active part in the Heart of the South West LEP's devolution project. In September 2015 the Heart of the South West (HotSW) submitted its devolution Statement of Intent to Government. The partners are 17 local authorities, two National Parks, the Local Enterprise Partnership and the three Clinical Commissioning Groups. A report will be presented to Members at the July 2016 Council meeting to recommend agreeing to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area.

IN SUMMARY

34. The financial year 2015/16 has seen significant change both in the way the Council is funded and the way in which its services are delivered. The significant Transformation Programme (T18) on which the Council has embarked will give the Authority the best possible foundation from which to meet the future challenges facing Local Government and to maintain those services which are much needed and appreciated by our communities.

Issue of the Accounts

35. The Finance Community of Practice Lead (S151 Officer) authorised the Statement of Accounts 2015/16 for issue on 22 September 2016. Events taking place after this date are not reflected in the financial statements or notes.

PERFFORMANCE INDICATORS FOR 2015-16 CORPORATE BALANCED SCORECARD

The Council's Transformation Programme (T18), combined with the introduction of a new IT system has meant that performance in some key areas has been below that which should be expected. With the implementation of improvement plans and a commitment to providing extra temporary resources, performance did start to recover in the last quarter (December 2015 to March 2016).

Community/Customer

Q1	Q2	Q3	Q4	
✔	▲	▲	▲	Overall waste recycling rate %
✔	▲	✔	▲	Residual waste per household
⬤	⬤	⬤	⬤	CST: Average Call Answer Time
✔	✔	▲	▲	CST: % of enquiries resolved at first point of contact

Processes

Q1	Q2	Q3	Q4	% of planning applications determined within time frame
✔	⬤	✔	✔	Major(Statutory):
⬤	⬤	⬤	✔	Minor:
⬤	⬤	⬤	✔	Other

Q1	Q2	Q3	Q4	
⬤	⬤	⬤	⬤	Avg End to End time Benefits New Claims
✔	✔	✔	✔	Avg End to End time Benefits Change of circumstances

T18 Programme

Q1	Q2	Q3	Q4	
-	▲	▲	▲	T18: Programme timescales on track
-	✔	✔	✔	T18: Performance vs. Budget
-	▲	⬤	▲	T18: No. of Processes live
-	✔	✔	⬤	T18: Ratio call/web submissions

Key

⬤	Below target performance
▲	Narrowly off target, be aware
✔	On or above target

Performance

Q1	Q2	Q3	Q4	
✔	No data	No data	▲	*EH: % of nuisance complaints resolved at informal stage Moved to W2 at end of Qtr 3. Data available from next Qtr*
✔	✔	✔	✔	Avg days short term sickness/FTE
▲	▲	▲	▲	Complaint response speed

Performance Indicator Exception Report: This table gives a performance report on Indicators which are Red at Quarter 4 (where actual performance is below the Council's target).

Code and Name	Managed by	Prev Status	Last Qtr. Q3	Q4 2015/16 Value	Q4 2015/16 Target	Action Response
Average Call Answer Time **The average time in minutes for a call to be answered. This time shows as an average over each quarter.**	Anita Ley	Red	3.2	2.12	1 min	Work started to simplify the call scripts in May and reduce both the time during a call and the wrap-up required afterwards on some of the higher volume processes to improve call answer time. The continuing movement of processes onto Workflow360 has allowed the switching off of two systems that are no longer required reducing the complexity and training demands of new team members. This needs to be compared with the additional processes now dealt with by customer services that previously were passed immediately to the back office. Whilst better for the customer and case management it does place additional strain on the CST with increased call length
Average End to End time - Benefits New Claims	Allison Lewis	Red	28.08	32.01	24	New claims current processing times are high partly because of reduction in staff and channel shift not being completed, this should be in place in June. The processing time also reflects the length of time it takes the customer to supply all relevant evidences to be able to process their claim. The new IEG4 software solution and integration with W2 will allow us to automate the reminder and subsequent shutdown of processes over 30 days if no response comes from the customer in a timely fashion. This should have a positive effect on this measure and the customer.

Code and Name	Managed by	Prev Status	Last Qtr.	Q4 2015/16		Action Response
			Q3	Value	Target	
T18: Ratio call/web submissions	Jim Davis		Calls: 1120 Web: 218 11% online (Dec data)	Calls: 5866 Web: 1392 14% online	20%	Further delays on Civica providing fixes continued into Quarter 4. Fixes for the existing problems were provided late into the quarter but the website suffered from a specific problem. The website was timing customers out and the issue worsened as the quarter went on, making it harder for customers to submit forms. This problem was difficult to identify as it appeared inconsistently but simple to solve. The issue turned significantly worse into April but this enabled better understanding of the problem and eventual fixing. This single cause was eventually fixed and the ratio of web submissions has started to normalise again back up to around 20%. New processes that offer better functionality for online submissions have gone live in May and should help to increase the ratio of web submissions.

Performance Indicator (PI) Information Report

Below are the Non-targeted (data-only) performance measures that are reported every quarter to provide context and background information. These are not suitable to be included within the Balanced Scorecard page as no targets are applicable or relevant.

PI Description	Managed By	2014/15 Year To Date or total	2015/16 Year To Date or total	Comment (If Applicable)
Planning Enforcement (Workload) Change: Due to issues extracting the information, breaking down the action in each enforcement case isn't possible. Volume of all current outstanding work is being reported instead	Pat Whymer	-	N/A – There are currently 500 outstanding cases	The fix required from Civica was delayed due to testing failures and wasn't installed in qtr. 4. The process is now live in Workflow360 and partial data will be reported next qtr. to O&S. Live data will be made available in the dashboards later this month. We have funding to clear this backlog until December. A reasonable level of active cases would be around 200-250 although historically it has consistently been higher. Around 500 cases closed each year would be expected.
All: Complaints received Complaints logged against each Service per quarter. Highlights changes over time and the effects of initiatives.	Assets	7	3	*The existing complaints software still utilises the old service area distinctions. As we move onto the new system reporting will be simplified to enable easier grouping for better analysis, breaking down into Stage 1/2, and capturing our response time. Average time to respond will be available for next quarter as the complaints process has moved into Workflow360. Live data will be made available via the dashboards. 10% reduction in complaints compared to the previous year*
	Corporate Services	3	0	
	Environment Services	73	97	
	Environmental Health	9	4	
	Finance	1	2	
	ICT & CS	70	74	
	Planning	81	40	
Long term sickness (days) Number of days lost due to long term sickness	Andy Wilson	2585	1987	Equivalent to 1.79 days/FTE for the Qtr. 6 days/FTE for the year

PI Description	Managed By	2014/15 Year To Date or total	2015/16 Year To Date or total	Comment (If Applicable)
Short term sickness (days) Number of days lost due to short term sickness	Andy Wilson	1396	822	Equivalent to 0.9 days/FTE for the quarter. 2.47 days/FTE for the year This figure reflects the reduced number of employees on the Establishment following voluntary redundancies during 2015 but per FTE is still set to be significantly lower than last year. Public sector averages are around 8-9days/FTE
% of customer contact through online interaction Demonstrating channel shift	Kate Hamp	-	Quarter 4 2015/16 was 13.98%	The overall number of web submissions directly into W2 has been steadily increasing. The overall % of online customer contact took a hit this quarter from issues with the website making it harder for customers to submit forms. We saw a corresponding increase in customers choosing email submission of work to us instead, whilst not as efficient as web submitting this still reduces load on the call centre. Once fixed the number web submissions started improving and we are back up to the 20% mark. An increasing number of W2 processes (fully integrated needing no additional admin) are now available online and the usage should start to increase as the service is advertised. A number of reporting processes that offer improved functionality for the customer to submit online rather than through the call centre have just gone live, mostly circumventing case managers to route directly to operational staff to deal with.

PI Description	Managed By	2014/15 Year To Date or total	2015/16 Year To Date or total	Comment (If Applicable)
Average call answer time The average time in minutes for a call to be answered. This time shows as an average over each month	Anita Ley	1.7	2.44	Historical average around 1.5-1.6 minutes. To give some context the call centre received 73,000 calls over the quarter around 10% higher than the same period last year. Work started to simplify the call scripts in May and reduce both the time during a call and the wrap-up required afterwards on some of the higher volume processes to improve call answer time. This needs to be compared with the additional processes now dealt with by customer services that previously were passed immediately to the back office. Whilst better for the customer and case management it does place additional strain on the Customer Services Team.
Total number of online transactions	Kate Hamp	-	*Quarter 4 2015/16 :Via Workflow 360:1412 Goss forms: 1126*	All web submissions received
% of calls resolved at first point of contact Percentage of calls which are resolved at initial contact with CST	Anita Ley	72.33%	64%	This is an internal measure that we count quite strictly. Many other local authorities include additional processes which stretches the definition. This gives a truer impression of the number of cases being dealt with solely by the CST. As more W2 processes go live this should improve as they have been designed to enable first point of contact resolution but the simpler processes being available online means the more complex processes remain with the customer service team.

PI Description	Managed By	2014/15 Year To Date or total	2015/16 Year To Date or total	Comment (If Applicable)
Nuisance complaints Received	Ian Luscombe	-	Quarter 4 2015/16 : 54	The nuisance process (covering noise, odours, smoke, etc) has now gone into W2, this has moved the processes into the CST and case management with specialist involvement only required later for more complex investigation. It is planned to run antisocial behaviour reporting through the same process in the future. Breakdown to area will be provided from next quarter
Average time taken for processing Disabled Facilities Grants (Portion under council control) (Days)	Ian Luscombe	-	3 days	This is the portion of the process completely under the council's control (from application to approval). Our target is completion within 5 days The average number of days is 3. Total of 24 approvals for SH

PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. A Statutory Officers' Panel was set up in 2015-16 and a key role of this Panel is strategic risk management. This Panel consists of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer.

A risk report is presented to the Council's Audit Committee every six months. Below is an extract mainly from the Risk report to the Audit Committee on 24 March 2016 and from the Council's risk register.

Risk	**Impact**	**Mitigation**
Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government policy and/or income streams	Reduction in Government Grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support.	Senior Leadership Team to keep watching brief over Government changes in policy and proposals to alter funding – strategically amending the MTFS and local plans to adapt to changes. Officers to develop income generation response as part of MTFS; 'Invest to Earn' budgets allocated to seed fund income initiatives. Report to Executive in October 2015 covering asset strategy. Housing options and income generation principles.
Strategic Leisure Review	Risk that the Councils may not end up receiving a bid that meets its requirements	Detailed joint procurement process (with West Devon) and constant monitoring; wide review team of officers; affordability criteria highlighted as part of tender process.
Local Authority Controlled Company (LACC)	Capacity impact on staff and business as usual delivery. Business case to assess the market for the LACC.	The Councils have engaged external consultants to prepare a business case and implementation plan. This will help to determine the validity of the business proposition and help the Senior Leadership Team (SLT) and Members assess timescales and impact on capacity.
Business Continuity	Processes need to be robust to ensure business continuity in the event of a significant event occurring e.g. failure to ensure the continuous availability of critical IT systems.	Agile working reduces the reliance on two main office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity Plans have been updated.

Risk	Impact	Mitigation
Transformation Programme (T18) benefits not all delivered	Risk that sustained benefits from the T18 Programme are not fully embedded. Capacity risk post March 2016 when funding for some temporary staff ceases. Risk of new IT systems not being sufficiently fit for purpose on schedule.	Regular SLT and Member scrutiny with quarterly monitoring reports to Members. T18 programme is within budget. On 16th June 2016 the Executive considered a report on Transitional Resources. The Executive have recommended to Council (on 30th June) to approve the re-investment of £0.5 million of T18 savings and new homes bonus funding, to fund the transitional staffing resources set out in the report. The Council's Head of Paid Service and Group Manager have regular weekly meetings with the IT software supplier.
Provision for Business Rates appeals	There is uncertainty and risk surrounding the calculation of the provision for business rates appeals as future events may affect the amount required to settle an obligation. South Hams has withdrawn from the Devon Business Rates pool in 2015/16 due to the risk of business rates appeals.	In 2015/16 there has been a £26.7 million increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £10.68 million). The Council maintains a Business Rates Retention Earmarked Reserve to fund the volatility in Business Rates and funding issues from the new accounting arrangements. The balance on this reserve is £9.916 million at 31 March 2016 and this is mainly due to the Council having accounted for a safety net payment of £9.86 million in 2015/16.
Emergency response, e.g. coastal erosion/storm damage/flooding	Support is needed to communities during coastal erosion/storm damage/flooding events as well as engagement in longer term recovery	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each other's responsibilities and capacity.
Safeguarding	Risk that the Council and/or contractors fail to adhere to meet safeguarding obligations as set out in legislation such as the Children's Act 2004, section 11.	Policies in place and key staff and management have received appropriate training and contact details to be able to spot and report safeguarding issues.

Risk	Impact	Mitigation
Data Protection	To manage the risk of non-compliance with Cabinet Office PSN CoCo, PCI DSS, Data Protection Act, RIPA and Human Rights Act.	Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices. Take into account advice from the Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. Staff will be completing a data protection awareness course in the near future via the Council's new eLearning tool.
Waste Round Review	Risk of reputational issue to the Council if the project fails to run to project timeframe and deliverables. Risk to identified efficiency savings if project is not run on time.	Project group are meeting weekly and the operational plan is supported by a communications plan. Additional staff are included in the customer contact/case management plan.

Section 2

Core Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2015/16	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves 2015/16 £000**
Balance at 31 March 2015 carried forward	**1,741**	**6,166**	**4,463**	**348**	**12,718**	**27,105**	**39,823**
Movement in Reserves during Year							
Surplus or (deficit) on provision of Services	(3,276)	-	-	-	(3,276)	-	(3,276)
Other Comprehensive Income and Expenditure	-	-	-	-	-	6,819	6,819
Total Comprehensive Income and Expenditure	**(3,276)**	**-**	**-**	**-**	**(3,276)**	**6,819**	**3,543**
Adjustments between accounting basis & funding basis under regulations (Note 4)	12,642	-	(684)	29	11,987	(11,987)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**9,366**	**-**	**(684)**	**29**	**8,711**	**(5,168)**	**3,543**
Transfers to/from Earmarked Reserves (Note 5)	(9,297)	9,297	-	-	-	-	-
Increase/ (Decrease) in Year	**69**	**9,297**	**(684)**	**29**	**8,711**	**(5,168)**	**3,543**
Balance at 31 March 2016 carried forward	**1,810**	**15,463**	**3,779**	**377**	**21,429**	**21,937**	**43,366**

SECTION 2A MOVEMENT IN RESERVES STATEMENT

2014/15 Comparatives	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves 2014/15 £000**
Balance at 31 March 2014 carried forward	**1,707**	**8,662**	**4,497**	**118**	**14,984**	**39,450**	**54,434**
Movement in Reserves during Year							
Surplus or (deficit) on provision of Services	(5,785)	-	-	-	(5,785)	-	(5,785)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(8,826)	(8,826)
Total Comprehensive Income and Expenditure	**(5,785)**	**-**	**-**	**-**	**(5,785)**	**(8,826)**	**(14,611)**
Adjustments between accounting basis & funding basis under regulations (Note 4)	3,323	-	(34)	230	3,519	(3,519)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**(2,462)**	**-**	**(34)**	**230**	**(2,266)**	**(12,345)**	**(14,611)**
Transfers to/from Earmarked Reserves (Note 5)	2,496	(2,496)	-	-	-	-	-
Increase/ (Decrease) in Year	**34**	**(2,496)**	**(34)**	**230**	**(2,266)**	**(12,345)**	**(14,611)**
Balance at 31 March 2015 carried forward	**1,741**	**6,166**	**4,463**	**348**	**12,718**	**27,105**	**39,823**

SECTION 2B COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2014/15				**2015/16**		
Gross Expenditure £000	**Gross Income £000**	**Net Expenditure £000**	**Service Division**	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
2,306	(1,176)	1,130	Central services to the public	1,996	(1,241)	755
3,588	(750)	2,838	Cultural and Related	2,905	(405)	2,500
8,900	(2,710)	6,190	Environmental and Regulatory	9,295	(2,451)	6,844
3,371	(4,865)	(1,494)	Highways and Transport	3,439	(5,037)	(1,598)
25,745	(24,388)	1,357	Other Housing	25,187	(23,644)	1,543
4,359	(3,524)	835	Planning	4,734	(3,490)	1,244
1,637	(162)	1,475	Corporate and Democratic Core	1,435	(142)	1,293
554	(26)	528	Non Distributed Costs	435	-	435
5,173	(1,734)	3,439	Material items (Note 2)	27	(512)	(485)
55,633	**(39,335)**	**16,298**	**Cost of Services**	**49,453**	**(36,922)**	**12,531**
1,639	(4)	1,635	Other operating expenditure (Note 6)	1,715	(37)	1,678
1,439	(703)	736	Financing and investment income and expenditure (Note 7)	1,557	(720)	837
12,275	(25,159)	(12,884)	Taxation and non-specific grant income (Note 8)	21,907	(33,677)	(11,770)
70,986	**(65,201)**	**5,785**	**(Surplus) or Deficit on Provision of Services**	**74,632**	**(71,356)**	**3,276**
		(1,001)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(214)
		9,827	Remeasurements of the net defined benefit liability			(6,605)
		8,826	**Other Comprehensive Income and Expenditure**			**(6,819)**
		14,611	**Total Comprehensive Income and Expenditure**			**(3,543)**

SECTION 2C. BALANCE SHEET

31 March 2015 (re-stated) £000		Notes	31 March 2016 £000
73,178	Property, Plant & Equipment	9	73,991
392	Investment Property		386
160	Intangible Assets		208
282	Long Term Debtors	11	188
74,012	**Long Term Assets**		**74,773**
15,000	Short Term Investments	10	15,000
120	Inventories		66
6,850	Short Term Debtors *	11	15,705
5,037	Cash and Cash Equivalents	12	2,237
27,007	**Current Assets**		**33,008**
(9,851)	Short Term Creditors *	13	(6,210)
(174)	Short Term Revenue Grants in Advance	26	(204)
(973)	Provisions *	14	(11,653)
(10,998)	**Current Liabilities**		**(18,067)**
(16)	Long Term Creditors	13	(19)
(3,379)	Long Term Revenue Grants in Advance - Section 106 Deposits	26	(3,743)
(46,671)	Pensions Liability	31	(42,454)
(132)	Capital Grants - Receipts in Advance	26	(132)
(50,198)	**Long Term Liabilities**		**(46,348)**
39,823	**Net Assets**		**43,366**
12,718	Usable Reserves	15	21,429
27,105	Unusable Reserves	16	21,937
39,823	**Total Reserves**		**43,366**

* Short term Debtors - original balance £6,193k, Creditors - original balance (£10,126k) and Provisions - original balance (£41k), have been restated to separately identify the balances in respect of Business Rates as at 31 March 2015. Previously the position at year end (including the Appeals Provision) had been netted off and shown in the Balance Sheet as a net Creditor.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The unaudited accounts were issued on 30 June 2016. The audited accounts were issued on 22 September 2016.

SECTION 2D. CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income, or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2014/15 £000		**2015/16 £000**
5,785	**Net (surplus) or deficit on the provision of services**	**3,276**
(8,551)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 17)	3,563
774	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 18)	1,193
(1,992)	**Net cash outflows/ (inflow) from Operating Activities**	**8,032**
1,550	Net increase / (decrease) in Investing Activities (Note 19)	(4,852)
(1,930)	Net cash outflow / (inflow) from Financing Activities (Note 20)	(380)
(2,372)	**Net (increase) or decrease in cash and cash equivalents**	**2,800**
2,665	Cash and cash equivalents at the beginning of the reporting period	5,037
5,037	Cash and cash equivalents at the end of the reporting period (Note 12)	2,237

Section 3

Notes to the

Financial Statements

CONTENTS

1. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2016 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to reduce by 1 year across all assets, this would have an impact of approximately £170,000 on the Council's finances.
Business Rates Appeals Provision	Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed.	There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle an obligation.
Arrears	The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2016, the Authority had a balance of Sundry Debtors of £1.08million. A review of significant balances suggested that an impairment for doubtful debts of 13.3% (£144,000) was appropriate.	The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £5,000 on the Council's finances.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. The value of pension assets is estimated based upon information available at the Balance Sheet date, although these valuations could be earlier. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may give a different value of pension assets, but this difference is not considered to be material. For 2015/16, the Actuary has calculated the capitalised cost of the strain liability for 31 former employees who had left the Council's employment at £1,420,000. However, to this figure, the Council has added a further cost of £344,000 to increase the provision for those employees who were over 55 and left the Council's employment under either voluntary or compulsory redundancy as part of the Transformation Programme. The capitalised cost which is based on actual assumptions differs from the cash cost payable to the Pension Fund by the Council. The figure of £344,000 was estimated from the cash costs that had previously been calculated for each employee in question.	The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £1.5 million. The assumptions interact in complex ways. For example, in 2015/16, the Authority's actuaries advised that the pension liability has decreased by £8.5 million as a result of a change in "financial assumptions". Please refer to Note 31 for further information about the assumptions used by the actuaries.

2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following material item was included on the face of the Comprehensive Income and Expenditure Statement (CIES) in 2015/16 and 2014/15. This expenditure relates to the upfront investment costs for the Council's Transformation Programme (T18). This is explained in detail in the Narrative Statement to the Accounts.

	2014/15			2015/16		
Transformation Programme (T18) Investment Costs	**Direct £000**	**Recharges £000**	**Total £000**	**Direct £000**	**Recharges £000**	**Total £000**
GROSS REVENUE EXPENDITURE						
ICT technology, implementation and workstream development	595	6	601	715	11	726
ICT workstation costs and infrastructure	274	11	285	109	5	114
Training	90	-	90	86	2	88
Accommodation	58	11	69	8	-	8
Implementation and design of the future operating model	288	-	288	2	-	2
Redundancy payments	2,062	153	2,215	370	-	370
Pension Strain (capitalised cost) See **Note a** below	1,625	-	1,625	344	-	344
Pension Strain(capitalised cost reversal from 2014/15)	-	-	-	(1,625)	-	(1,625)
Sub Total	**4,992**	**181**	**5,173**	**9**	**18**	**27**
GROSS REVENUE INCOME Shared Service Recharge to West Devon BC	-	(1,300)	(1,300)	-	(512)	**(512)**
Transformation Challenge Award (Government grant)	(434)	-	(434)	-	-	**-**
Sub Total	**(434)**	**(1,300)**	**(1,734)**	**-**	**(512)**	**(512)**
NET REVENUE EXPENDITURE/(INCOME) (as shown in the CIES)	**4,558**	**(1,119)**	**3,439**	**9**	**(494)**	**(485)**

Note a: In 2014/15 the Council made an adjustment to the pension fund liability in relation to timing differences where these figures have not yet been recognised in the Actuaries Pension Statement.

In 2015/16, these figures have been recognised and included within the Councils IAS19 adjustments, therefore the prior year entries are reversed. In addition, there is a further adjustment of £344,000 in relation to timing differences in 2015/16.

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2015/16 was approved for issue by the Finance Community of Practice Lead (S151 Officer) on 30 June 2016. The SOA were then reviewed by the Audit Committee on 28 July 2016 and the audited accounts were authorised for issue on 22 September 2016. This is also the date up to which events after the reporting period have been considered.

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	Usable Reserves			
2015/16	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	**2,118**			**(2,118)**
Revaluation losses/(gains) on Property Plant and Equipment	**(100)**			**100**
Movements in the market value of Investment Properties	**6**			**(6)**
Amortisation of intangible assets	**53**			**(53)**
Capital grants and contributions applied	**(764)**			**764**
Revenue expenditure funded from capital under statute	**1,613**			**(1,613)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	**26**			**(26)**
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	**(2,506)**			**2,506**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the CAA	**(140)**		**140**	**-**
Transfer of capital grants to revenue	**111**		**(111)**	**-**

	Usable Reserves			
2015/16	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income And Expenditure Statement	**(20)**	**20**		**-**
Transfer of unattached capital receipts	**(381)**	**381**		**-**
Use of the Capital Receipts Reserve to finance new capital expenditure		**(1,087)**		**1,087**
Repayment of mortgage and parish loans		**2**		**(2)**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 31)	**3,943**			**(3,943)**
Employer's pensions contributions and direct payments to pensioners payable in the year	**(1,555)**			**1,555**
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	**(7)**			**7**
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	**10,258**			**(10,258)**
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(13)**			**13**
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2015/16	**12,642**	**(684)**	**29**	**(11,987)**

	Usable Reserves			
2014/15 Comparatives	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	**2,121**			**(2,121)**
Revaluation losses/(gains) on Property Plant and Equipment	**286**			**(286)**
Movements in the market value of Investment Properties	**(55)**			**55**
Amortisation of intangible assets	**46**			**(46)**
Capital grants and contributions applied	**(1,604)**			**1,604**
Revenue expenditure funded from capital under statute	**1,500**			**(1,500)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	**2**			**(2)**
Insertion of items not debited or credited to the CIES:				
Capital expenditure charged against the General Fund	**(1,408)**			**1,408**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the CAA	**(230)**		**230**	**-**
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	**(506)**	**506**		**-**
Use of the Capital Receipts Reserve to finance new capital expenditure		**(542)**		**542**
Repayment of mortgage and parish loans		**2**		**(2)**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 31)	**5,807**			**(5,807)**
Employer's pensions contributions and direct payments to pensioners payable in the year	**(1,667)**			**1,667**
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	**(35)**			**35**

	Usable Reserves			
2014/15 Comparatives	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	**(916)**			**916**
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(18)**			**18**
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2014/15	**3,323**	**(34)**	**230**	**(3,519)**

5. TRANSFERS TO/ FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16. The purpose of the largest earmarked reserves are shown below:

Vehicles and Plant Renewals - This reserve is used to purchase vehicles and heavy plant to maintain a modern and efficient Council fleet, and to ensure Contract conditions are met.

Planning, Policy and Major Developments - This was set up to help smooth out annual expenditure on review and preparation of the local plan. It has developed to help deal with costs associated with the Sherford development, planning policies and planning related activities.

Capital Programme – This reserve helps to support the funding of the Capital Programme.

New Homes Bonus – This reserve was established to show how New Homes Bonus funding has been used on an annual basis.

Business Rates Retention Scheme - The business rates reserve covers any possible funding issues from the new accounting arrangements.

Transformation Programme (T18) – The Council has funded the investment costs for the Transformation Programme in 2014/15 and 2015/16, where funding was set aside in previous years for this purpose. The Transformation Programme is described in the Narrative Statement.

Strategic Change Reserve – This reserve was set up to finance one off investments under the Council's Transformation Programme that are required for development or the release of ongoing efficiencies.

The table below shows the earmarked reserve balances at 31 March 2016 and the movement during 2015/16.

2015/16 **EARMARKED RESERVES**	**Balance at 31 March 2015 £000**	**Transfers Out £000**	**Transfers In £000**	**Balance at 31 March 2016 £000**
General Fund				
Affordable Housing	453	(148)	235	540
Strategic Issues	133	(133)	-	-
Community Parks and Open Spaces	108	(27)	17	98
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	369	(34)	85	420
Members Sustainable Community	7	-	38	45
Marine Infrastructure Reserve	19	-	28	47
Land and Development	184	(18)	60	226
Ferry Repairs and Renewals	263	(37)	87	313
Economic Initiatives	120	(22)	-	98
Vehicles and Plant Renewals	1,735	(1,958)	541	318
Pay and Display Equipment	40	-	21	61
On-Street Parking	44	-	-	44
Print Equipment	76	(68)	-	8
ICT Development	203	(8)	-	195
Sustainable Waste Management	72	(69)	-	3
District Elections	68	(30)	10	48
Beach Safety	14	-	-	14
Planning Policy & Major Developments	596	(265)	-	331
Building Control	271	(6)	130	395
Section 106 Agreements	41	(3)	-	38
Revenue Grants	393	(49)	24	368
Capital Programme	129	(154)	1,114	1,089
New Homes Bonus	184	(1,398)	1,694	480
Renovation Grant Reserve	1	(5)	11	7
Business Rates Retention	304	(175)	9,787	9,916
T18 Investment Reserve	-	(508)	578	70
Homelessness Prevention Reserve	-	-	25	25
Strategic Change	-	(1,372)	1,372	-
Sub Total	**5,827**	**(6,586)**	**15,956**	**15,197**
Specific Reserves – Salcombe Harbour				
Pontoons	6	-	62	68
Harbour Renewals	130	(102)	30	58
General Reserve	203	(82)	19	140
Sub Total	**339**	**(184)**	**111**	**266**
TOTAL EARMARKED REVENUE RESERVES	**6,166**	**(6,770)**	**16,067**	**15,463**

2014/15 Comparatives EARMARKED RESERVES	Balance at 31 March 2014 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2015 £000
General Fund				
Affordable Housing	102	(76)	427	453
Strategic Issues	379	(246)	-	133
Community Parks and Open Spaces	105	(14)	17	108
Community Wellbeing	44	(44)	-	-
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	343	(29)	55	369
Members Sustainable Community	48	(41)	-	7
Marine Infrastructure	-	-	19	19
Land and Development	196	(42)	30	184
Ferry Repairs and Renewals	176	-	87	263
Economic Initiatives	112	(36)	44	120
Vehicles and Plant Renewals	1,236	(42)	541	1,735
Pay and Display Equipment	19	-	21	40
On-Street Parking	44	-	-	44
Print Equipment	76	-	-	76
ICT Development	350	(147)	-	203
Sustainable Waste Management	72	-	-	72
District Elections	58	-	10	68
Beach Safety	17	(3)	-	14
Planning Policy & Major Developments	671	(75)	-	596
Building Control	187	(6)	90	271
Section 106 agreements	37	(19)	23	41
Revenue Grants	356	(17)	54	393
Capital Programme	977	(1,537)	689	129
New Homes Bonus	698	(1,879)	1,365	184
Rural Services Support Funding	37	(37)	-	-
Renovation Grant Reserve	37	(50)	14	1
Business Rates Retention	1,023	(719)	-	304
T18 Investment Reserve	935	(1,199)	264	-
Sub Total	**8,335**	**(6,357)**	**3,849**	**5,827**
Specific Reserves – Salcombe Harbour				
Pontoons	33	(77)	50	6
Harbour Renewals	152	(49)	27	130
General Reserve	137	(10)	76	203
Sub Total	**322**	**(136)**	**153**	**339**
Trust & Bequest	**5**	**(5)**	-	**-**
TOTAL EARMARKED REVENUE RESERVES	**8,662**	**(6,498)**	**4,002**	**6,166**

6. OTHER OPERATING EXPENDITURE

2014/15 £000		2015/16 £000
1,596	Parish council precepts	1,682
(4)	(Gains)/losses on the disposal of non-current assets	(37)
43	Pension administration expenses	33
1,635	**Total**	**1,678**

7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15 £000		2015/16 £000
1	Interest payable and similar charges	1
(137)	Interest receivable and similar income	(155)
(506)	Other investment income	(380)
-	Investment (gains)/ losses	(50)
1,415	Net interest on the net defined benefit liability	1,499
(37)	Investment properties	(78)
736	**Total**	**837**

8. TAXATION AND NON SPECIFIC GRANT INCOME

2014/15 £000		2015/16 £000
	Council Tax	
(6,868)	• Income	(7,005)
(35)	• Collection Fund adjustment	(7)
(60)	• Collection Fund - distribution of surplus	(100)
125	• Support grant to parishes	112
	Business Rates	
(11,948)	• Income	(12,081)
11,045	• Tariff	11,256
1	• Pooling administration costs	-
(87)	• Pooling gain	17
-	• Safety net payment	(9,862)
49	• Levy payment	-
139	• Transfer of Collection Fund deficit	10,365
	Non ring - fenced Government grants :	
(1,113)	• Small Business Rate Relief Grant	(1,176)
(1,985)	• Revenue Support Grant	(1,412)
(1,365)	• New Homes Bonus Grant	(1,693)
-	• Council Tax Freeze Grant	(58)
(782)	Capital grants and contributions	(126)
(12,884)	**Total**	**(11,770)**

9. PROPERTY, PLANT AND EQUIPMENT

Movements in 2015/16:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2015	**64,829**	**8,722**	**9,113**	**737**	**-**	**83,401**
Additions	415	2,023	180	-	25	2,643
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(82)	-	-	-	-	(82)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	91	-	-	-	-	91
Derecognition – disposals	-	(1,626)	-	-	-	(1,626)
At 31 March 2016	**65,253**	**9,119**	**9,293**	**737**	**25**	**84,427**
Accumulated Depreciation and Impairment at 1 April 2015	**2,204**	**5,904**	**2,115**	**-**	**-**	**10,223**
Charge for 2015/16	1,043	728	347	-	-	2,118
Depreciation written out to the Revaluation Reserve	(296)	-	-	-	-	(296)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(8)	-	-	-	-	(8)
Derecognition - disposals	-	(1,601)	-	-	-	(1,601)
At 31 March 2016	**2,943**	**5,031**	**2,462**	**-**	**-**	**10,436**
Balance Sheet amount at 31 March 2016	**62,310**	**4,088**	**6,831**	**737**	**25**	**73,991**
Balance Sheet amount at 31 March 2015	**62,625**	**2,818**	**6,998**	**737**	**-**	**73,178**

Comparative Movements in 2014/15:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2014	**64,116**	**8,730**	**4,956**	**737**	**3,383**	**81,922**
Additions	1,079	74	788	-	-	1,941
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	91	-	-	-	-	91
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(457)	-	-	-	-	(457)
Derecognition – disposals	-	(82)	(14)	-	-	(96)
Other movements in a cost or valuation (reclassification)	-	-	3,383	-	(3,383)	-
At 31 March 2015	**64,829**	**8,722**	**9,113**	**737**	**-**	**83,401**
Accumulated Depreciation and Impairment at 1 April 2014	**2,242**	**5,218**	**1,814**	**-**	**3**	**9,277**
Charge for 2014/15	1,043	768	309	-	-	2,120
Depreciation written out to the Revaluation Reserve	(881)	-	-	-	-	(881)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(170)	-	-	-	-	(170)
Impairment losses/(reversals) recognised in the Revaluation Reserve	(30)	-	-	-	-	(30)
Derecognition - disposals	-	(82)	(11)	-	-	(93)
Other movements in depreciation (reclassifications)	-	-	3	-	(3)	-
At 31 March 2015	**2,204**	**5,904**	**2,115**	**-**	**-**	**10,223**
Balance Sheet amount at 31 March 2015	**62,625**	**2,818**	**6,998**	**737**	**-**	**73,178**
Balance Sheet amount at 31 March 2014	**61,874**	**3,512**	**3,142**	**737**	**3,380**	**72,645**

Depreciation

The Council provides depreciation on all assets other than freehold land, community assets and investment properties. The provision for depreciation is made by allocating the cost (or revalued amount) less the estimated residual value of the assets over the accounting periods expected to benefit from their use. The straight-line method of depreciation is used.

Asset lives are reviewed regularly as part of the rolling programme of property revaluation and annual impairment review. Where the useful life of an asset is revised, the carrying amount of the asset is depreciated over the revised remaining life.

Capital Commitments
As at 31 March 2016 the Authority had not entered into any contracts for the construction or enhancement of Property, Plant and Equipment with a value in excess of £200,000. There were no similar commitments in excess of £200,000 as at 31 March 2015.

Revaluations
All material freehold land and buildings which comprise the Authority's property portfolio are revalued by the Council's Valuer on a rolling basis.
Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The valuations of real estate were carried out by an external contractor under the supervision of Guy Pedrick MRICS, the Council's Senior Specialist (Assets). Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date. The basis of valuation is set out in the Statement of Accounting policies in Note 34.

	Land and buildings £000	**Vehicles, plant furniture & equipment £000**	**Total £000**
Valued at historical cost	-	4,088	4,088
Valued at current value in:			
2015/2016	24,816	-	24,816
2014/2015	15,703	-	15,703
2013/2014	17,180	-	17,180
2012/2013	956	-	956
2011/2012	3,655	-	3,655
Total	**62,310**	**4,088**	**66,398**

Impairment Losses
Impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure, are summarised in the preceding movements table, reconciling the movement over the year in the Property, Plant and Equipment balances. No impairment losses other than those relating to revaluation losses were incurred.

10. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are:

Liabilities
- trade payables and other payables
- borrowings
- financial guarantees

Assets
- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives
- swaps
- forwards
- options

The carrying amount and fair values for investments at 31 March 2016 are shown in the following table:

Investment Type	Carrying Amount (net of interest)	Interest due at year end	Gross carrying Amount	Fair Value
	£000	£000	£000	£000
Short term	15,000	27	15,027	15,029

Heritable Bank
At the 31 March 2016 the Council had £22,483 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank’s shares are owned by Icelandic bank, Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank. Of this amount £1,227,517 (98%) has already been repaid to the Council by the Administrators.

The balance outstanding at 31 March 2014 (£72,368) was impaired (written out of the Balance Sheet) in the 2013/14 Accounts. Therefore the additional dividend received on 7 September 2015 of £49,885 is additional income for 2015/16.

At the time the deposit was placed, the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits). Both ratings indicated low risk and were within the deposit policy approved by the Council.

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid fifteen dividends amounting to 98% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

Summary of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term			**Current**	
	31 March 2015 £000	**31 March 2016 £000**		**31 March 2015 £000**	**31 March 2016 £000**
Cash and cash equivalents	**-**	**-**		**5,037**	**2,237**
Investments	**-**	**-**		**15,000**	**15,000**
Debtors					
Loans and receivables	282	188		-	-
Financial assets carried at contract amount *	-	-		4,589	4,032
Total Debtors	**282**	**188**		**4,589**	**4,032**
Creditors					
Financial liabilities at amortised cost	(16)	(19)		-	-
Financial liabilities carried at contract amount				(4,609)	(2,188)
Total Creditors	**(16)**	**(19)**		**(4,609)**	**(2,188)**

* Financial assets have been restated for 2014/15 to exclude the Housing Benefit bad debt provision which is not recognised as a Financial Instrument.

11. DEBTORS

31.3.2015 £000		31.3.2016 £000
	Short Term	
705	Central Government bodies	321
1,913	Other Local authorities	1,993
	Other debtors	
333	Council Tax	407
657	Business Rates*	10,067
3,242	Other entities & individuals	2,917
6,850	**Total**	**15,705**
	Long Term	
275	Local Authorities	183
7	Other entities & individuals	5
282	**Total**	**188**

* Short Term Debtors have been restated to show the gross Business Rates position as at 31 March 2015. Previously the balances have been netted off and shown as a net Business Rates Creditor.

12. CASH AND CASH EQUIVALENTS

31.3.2015 £000		31.3.2016 £000
(1,113)	Cash held by the Authority	(613)
400	Bank current accounts	-
5,750	Money Market Funds	2,850
5,037	**Total Cash and Cash Equivalents**	**2,237**

13. CREDITORS

31.3.2015 £000		31.3.2016 £000
	Short Term	
(1,553)	Central Government bodies	(367)
(1,165)	Other local authorities	(632)
	Other Creditors	
(1,089)	Council Tax	(964)
(1,108)	Business Rates*	(1,518)
(4.936)	Other entities & individuals	(2,729)
(9,851)	**Total**	**(6,210)**
	Long Term	
(16)	Local Authorities	(9)
-	Rent Deposits	(10)
(16)	**Total**	**(19)**

* Short Term Creditors have been restated to show the gross Business Rates position as at 31 March 2015. Previously the balances have been netted off and shown as a net Business Rates Creditor.

14. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2015/16 or 2014/15. The breakdown of the provision is shown in the following table:

	Land Charges £000	Business Rates Appeals* £000	Total £000
Balance at 1 April 2015	**(41)**	**(932)**	**(973)**
Provisions made in year	-	(10,680)	**(10,680)**
Amounts used in year	-	-	**-**
Balance at 31 March 2016	**(41)**	**(11,612)**	**(11,653)**

* Short Term Provisions have been restated to show the gross Business Rates position as at 31 March 2015. Previously the balances have been netted off and shown as a Business Rates Creditor.

Short term – Land charges:
The land charges case has now been resolved but the associated costs are still outstanding, therefore the provision is still required.

Short term – Non domestic rates appeals:
Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value. The Council had some significant appeals outstanding at the year end. In 2015/16 there has been a £26.7 million increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £10.68 million). This is further explained in the Narrative Statement.

15. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2A. The Council has the following usable reserves:

General Fund Balance - This balance has been established from surpluses on the Council's total expenditure. It provides a financial cushion should anything unexpected happen which would require unplanned expenditure.

Earmarked Reserves - The Council has set aside monies for specific purposes e.g. vehicle & plant replacement, the funding of strategic issues etc.

Capital Receipts Reserve - Proceeds from the sale of assets are held in this reserve to be made available for future capital expenditure.

Capital Grants Unapplied – This reserve represents grants and contributions received in advance of matching to new capital investment.

16. UNUSABLE RESERVES

31.3.2015 £000		31.3.2016 £000
24,307	Revaluation Reserve	24,318
49,528	Capital Adjustment Account	50,370
(46,671)	Pensions Reserve	(42,454)
248	Council Tax Collection Fund Adjustment Account	255
(174)	Business Rates Collection Fund Adjustment Account	(10,432)
(133)	Accumulated Absences Account	(120)
27,105	**Total Unusable Reserves**	**21,937**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation or
- disposed of and the gains are realised

The Reserve includes only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31.3.2015 £000	31.3.2015 £000	Revaluation Reserve	31.3.2016 £000	31.3.2016 £000
	23,526	**Balance at 1 April**		**24,307**
1,273		Upward revaluation of assets	2,022	
(272)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(1,808)	
	1,001	**Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**		**214**
(220)		Difference between fair value depreciation and historical cost depreciation	(203)	
	(220)	**Amount written off to the Capital Adjustment Account**		**(203)**
	24,307	**Balance at 31 March**		**24,318**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to an historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

2014/15 £000	2014/15 £000	Capital Adjustment Account	2015/16 £000	2015/16 £000
	49,656	**Balance at 1 April**		**49,528**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,121)		▪ Charges for depreciation of non-current assets	(2,118)	
(286)		▪ Revaluation losses on Property, Plant and Equipment	100	
55		▪ Revaluation gains/(losses) on Investment Properties	(6)	
(46)		▪ Amortisation of intangible assets	(53)	
(1,500)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,613)	
(2)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(26)	
	(3,900)	**Total**		**(3,716)**
220		Adjusting amounts written out of the Revaluation Reserve	203	
	220	**Net written out amount of the cost of non-current assets consumed in the year**		**203**
		Capital financing applied in the year:		
542		Use of the Capital Receipts Reserve to finance new capital expenditure	1,087	
1,604		Capital grants and contributions credited to the CIES that have been applied to capital financing	764	
1,408		Capital expenditure charged against the General Fund	2,506	
(2)		Repayment of parish loans	(2)	
	3,552	**Total**		**4,355**
	49,528	**Balance at 31 March**		**50,370**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (CIES) as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the

Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31.3.2015 £000	Pensions Reserve	31.3.2016 £000
(32,704)	**Balance at 1 April**	**(46,671)**
(9,827)	Actuarial gains or (losses) on pension assets and liabilities	6,605
(4,182)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(5,224)
1,667	Employer's pensions contributions and direct payments to pensioners payable in the year	1,555
(1,625)	Accrued strain payments (see Note 2 'Material Items')	(344)
-	Reversal of accrued strain payments (see Note 2)	1,625
(46,671)	**Balance at 31 March**	**(42,454)**

Council Tax Collection Fund Adjustment Account

The Council Tax Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement (CIES) as it falls due from council tax payers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31.3.2015 £000	Council Tax Collection Fund Adjustment Account	31.3.2016 £000
213	**Balance at 1 April**	**248**
35	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	7
248	**Balance at 31 March**	**255**

Business Rates Collection Fund Adjustment Account

A scheme for the retention of business rates came in to effect on 1 April 2013 and established new accounting arrangements. The Business Rates Collection Fund Adjustment Account manages the differences arising from the recognition of business rates income in the Comprehensive Income and Expenditure Statement (CIES) as it falls due from ratepayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31.3.2015 £000	Business Rates Collection Fund Adjustment Account	31.3.2016 £000
(1,090)	**Balance at 1 April**	**(174)**
916	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	(10,258)
(174)	**Balance at 31 March**	**(10,432)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31.3.2015 £000	31.3.2015 £000	Accumulated Absences Account	31.3.2016 £000	31.3.2016 £000
	(151)	**Balance at 1 April**		**(133)**
151		Settlement or cancellation of accrual made at the end of the preceding year	133	
(133)		Amounts accrued at the end of the current year	(120)	
	18	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**13**
	(133)	**Balance at 31 March**		**(120)**

17. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

2014/15 £000		**2015/16 £000**
(2,121)	Depreciation	(2,118)
(286)	Impairment & downward valuations	74
55	Movement in market value of investment properties	(6)
(46)	Amortisation	(53)
862	Increase/(decrease) in Debtors*	8,855
(4,431)	Increase/(decrease) in Creditors*	3,611
27	Increase/(decrease) in Inventories	(54)
(4,140)	Movement in pension liability	4,217
(2)	Carrying amount of non-current assets held for sale, sold or derecognised	-
1,531	Other non-cash items charged to the net surplus or deficit on the provision of services*	(10,963)
(8,551)	**Total**	**3,563**

* Short Term Debtors, Creditors and Provisions have been restated to show the gross Business Rates position as at 31 March 2015.

18. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

2014/15 £000		**2015/16 £000**
506	Proceeds from the sale of Property, Plant & Equipment & Investment Properties	401
268	Other non-cash items charged to the net surplus or deficit on the provision of services	792
774	**Total**	**1,193**

19. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2014/15 £000		**2015/16 £000**
2,562	Purchase of property, plant and equipment, investment property and intangible assets	(4,357)
-	(Increase)/decrease in investments	-
(6)	Proceeds from the sale of property, plant and equipment, investment property & intangible assets	(401)
-	Interest received	-
(1,006)	Other receipts from investing activities (capital grants & contributions)	(94)
1,550	**Net cash flows from investing activities**	**(4,852)**

20. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2014/15 £000		2015/16 £000
(1,930)	Other receipts from financing activity	(380)
(1,930)	**Total**	**(380)**

21. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*. The Council budgets and prepares reports to Management on this basis. The following table depicts the cost of services within the CIES on a subjective basis.

Service Income & Expenditure

	Central Services	Cultural and Related	Environmental & Regulatory	Highways and Transport	Other Housing	Planning	CDC & NDC	Material Items	TOTAL 2015/16	TOTAL 2014/15
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(673)	(238)	(1,319)	(5,002)	(812)	(3,227)	(114)	(512)	(11,897)	(12,436)
Government grants & contributions	(568)	(167)	(1,132)	(35)	(22,832)	(263)	(28)	-	(25,025)	(26,899)
Total Income	**(1,241)**	**(405)**	**(2,451)**	**(5,037)**	**(23,644)**	**(3,490)**	**(142)**	**(512)**	**(36,922)**	**(39,335)**
Employee expenses	970	211	4,680	1,412	1,261	2,538	707	(908)	10,871	14,029
Other service expenses	248	1,671	3,395	1,755	22,352	1,131	542	935	32,029	34,173
Depreciation/ amortisation	3	906	541	44	1,208	428	10	-	3,140	3,413
Support service recharges	775	117	679	228	366	637	611	-	3,413	4,018
Total Expenditure	**1,996**	**2,905**	**9,295**	**3,439**	**25,187**	**4,734**	**1,870**	**27**	**49,453**	**55,633**
Net Expenditure	**755**	**2,500**	**6,844**	**(1,598)**	**1,543**	**1,244**	**1,728**	**(485)**	**12,531**	**16,298**

Note – The 2014/15 Comparative for Employee expenses includes £3.4 million of one-off investment costs relating to the Council's Transformation Programme. This is shown in further detail in Note 2 to the Accounts, Material Items of Income and Expense.

22. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. Building Regulations Control Services operate as a separate trading unit and the Summary Accounts for the year will be detailed in the Devon Building Control Partnership Accounts, which can be found at the following website:

http://www.teignbridge.gov.uk/index.aspx?articleid=16096

23. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year. Members allowances are published on the Council's website at:

http://southhams.gov.uk/article/4930/Councillor-Allowances

2014/15 £000		**2015/16 £000**
247	Allowances	233
23	Expenses	18
270	**Total**	**251**

24. OFFICERS' REMUNERATION

Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] introduced a legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees and senior police officers.

A senior employee (England & Wales) is defined as an employee whose salary is more than £150,000 per year, or alternatively one whose salary is at least £50,000 (England) per year (to be calculated pro rata for a part-time employee) and who is:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989
- the head of staff for a relevant body which does not have a designated head of paid service; or
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

The remuneration paid to the Authority's senior employees is as follows:

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Compensation etc £	Total £
Executive Director Service Delivery & Commercial Development– started 1.1.15	15/16	94,000	8,700	13,900	-	**116,600**
	14/15	23,300	2,300	4,300	-	**29,900**
Support Services Group Manager – started 1.3.15	15/16	65,800	3,100	9,700	-	**78,600**
	14/15	5,300	3,200	1,000	-	**9,500**
Customer First Group Manager – started 1.3.15, left 31.1.16	15/16	55,000	-	8,200	11,500	**74,700**
	14/15	5,200	-	900	-	**6,100**
Executive Director for Communities and Delivery – left 6.2.15	15/16	-	-	-	-	**-**
	14/15	75,900	2,300	13,900	-	**92,100**
Executive Director Strategic Lead for Transformation – left 10.4.15	15/16	1,500	-	200	-	**1,700**
	14/15	79,100	1,400	14,500	-	**95,000**
Head of Corporate Services – left 23.1.15	15/16	-	-	-	-	**-**
	14/15	51,200	2,500	9,400	-	**63,100**
Head of Environmental Health & Housing – left 6.2.15	15/16	-	-	-	-	**-**
	14/15	58,600	3,400	10,700	-	**72,700**
Head of Assets – left 6.3.15	15/16	-	-	-	-	**-**
	14/15	59,000	1,700	10,800	-	**71,500**

Note 1: Senior Management Team Restructure
In June 2014 South Hams District Council (SHDC) and West Devon Borough Council (WDBC) agreed to move forward with a radical Senior Management Team Restructure and to operate without a Chief Executive. An Executive Director Model has been adopted by both Councils and Senior Leadership Team responsibilities will be shared between two Executive Directors, supported by four Group Managers to reflect the requirements of the new operating model for the Transformation Programme. All six posts within the Senior Leadership Team were appointed to through an external recruitment exercise with open competition. One Group Manager post is currently vacant. The annual savings from the restructure of the Senior Management Team are £280,000 shared between the two Councils.

Note 2: Shared Services with West Devon Borough Council
The total cost of senior employees employed by West Devon Borough Council has been included in the equivalent note of West Devon Borough Council's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2015/16 South Hams District Council reimbursed costs amounting to £214,000 (2014/15 £180,000) in respect of the Senior Leadership Team, S151 Officer and Monitoring Officer employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2015/16 from West Devon Borough Council of £134,000 (2014/15 £209,000) in respect of the above shared senior employees.

<u>Other officers earning over £50,000</u>

Remuneration band	2014/2015 Number of employees		2015/2016 Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	1	1	-	-

Note 1: The employee referred to in 2014/15 left on 9 May 2014.

25. PAYMENTS TO EXTERNAL AUDITORS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Authority's external auditors:

	2014/15 £000	2015/16 £000
Fees payable with regard to external audit services	**61**	**51**
Core Audit Fees	51	43
Audit of Grants and Returns	10	8
Fees payable in respect of other services	**1**	**-**
TOTAL	**62**	**51**

26. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2015/16 £000
Credited to Taxation and Non Specific Grant Income		
Capital grants & contributions:		
Environment Agency - Coastal Recovery Grant	(693)	(175)
European Fisheries Fund - Salcombe Fish Quay	(27)	-
South West Water - Ford Leat, Dartmouth	(56)	-
Linden South West - Heathway, Totnes	-	(62)
Other capital grants & contributions	(6)	-
Reclassification of 2014/15 DEFRA grant from Capital to Revenue (AONB)	-	111
Non ring - fenced Government grants & contributions:		
Revenue Support Grant	(1,985)	(1,412)
New Homes Bonus Grant	(1,365)	(1,693)
Small Business Rate Relief	(1,113)	(1,176)
Council Tax Freeze Grant	-	(58)
Total	**(5,245)**	**(4,465)**
Credited to Services		
Rent Allowance subsidy	(22,037)	(21,867)
Rent Allowance subsidy re previous years	(707)	-
Housing Benefit administration subsidy	(338)	(297)
Rent rebate subsidy	(59)	(47)
Discretionary housing payments	(137)	(54)
Council Tax benefit administration subsidy	(89)	(79)
Business Rates cost of collection allowance	(206)	(206)
Transformation Challenge Award grant	(434)	-
REFCUS grants applied		
Disabled facilities grant	(285)	(366)
Section 106 deposits	(376)	(84)
Repair & Renew grant	(121)	(30)
Coastal Recovery grant	(261)	(111)
Second Homes Funding	-	(77)
Other grants	(10)	-
Recycling credits	(487)	(457)
Devon County Council - Torr Quarry Transfer Station	(280)	(284)
Dept. for Comm. & Local Govt. - Local Land Charges	-	(97)
Section 106 deposits	(99)	(185)
Electoral Commission - European Elections	(92)	(38)
Cabinet Office IER Funding - General Elections	-	(79)
Devon County Council - County Council Elections	(15)	-
Dept. for Comm.& Local Govt. - Sherford Resource Funding	(218)	(235)
Other grants	(648)	(432)
Total	**(26,899)**	**(25,025)**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the provider. The balances at the year-end are as follows:

Capital Grants Receipts in Advance	**31 March 2015 £000**	**31 March 2016 £000**
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(48)	(48)
Total	**(132)**	**(132)**

Short Term Revenue Grants Receipts in Advance	**31 March 2015 £000**	**31 March 2016 £000**
Devon County Council – Cycling & Walking Works	(6)	-
Devon County Council – Public Health Grant	(38)	(24)
DCLG – Sherford Resource Funding	(123)	(162)
Other grants	(7)	(18)
Total	**(174)**	**(204)**

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	**31 March 2015 £000**	**31 March 2016 £000**
Langage Energy Centre	(2,238)	(2,129)
Dartmouth Supermarkets	(225)	(204)
Leyford Close, Wembury	-	(321)
Riverside, Totnes	-	(250)
Various other sites	(916)	(839)
Total	**(3,379)**	**(3,743)**

27. RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government
Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 26.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in Note 23.

iESE Transformation Ltd
South Hams District and West Devon Borough Councils have a relationship with iESE Transformation Ltd. (iESE) which sees the latter providing consultancy support services to the Councils as part of their T18 Transformation Programme. The nature of this relationship is similar to an in-house arrangement on the basis that the Councils have become Public Body Members of the Company; meaning that the arrangements are not subject to the EU Directives concerning procurement (the Teckal Exemption). There is no requirement for Public Body Members to provide any funding or support for the Company other than as set in contracts for services entered into with the Company.

28. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below with the resources that have been used to finance it.

	2014/15 £000	2015/16 £000
Capital Investment		
Property, plant & equipment	1,941	2,618
Intangible assets	113	101
Revenue expenditure funded from capital under statute (REFCUS)	1,500	1,613
Assets under Construction	-	25
Total expenditure	**3,554**	**4,357**
Sources of Finance		
Capital receipts	542	1,087
Government grants and other contributions	1,604	764
Direct revenue contributions (earmarked reserves)	1,408	2,506
Total funding	**3,554**	**4,357**

N.B. The Council did not finance any of its capital expenditure by borrowing and as such its capital financing requirement was unchanged at (£98,000).

29. LEASES

Operating Leases

Authority as Lessee

The Authority uses certain land and buildings under the terms of operating leases. The most significant are:

Detail of lease	Term	Expiry date	Service group
A parcel of land for car parking	10 years	31.03.2017	Highways, Roads & Transport
The fundus of the Salcombe & Kingsbridge Estuary for the provision of harbour activities	21 years	24.03.2028	Highways, Roads & Transport

The future minimum lease payments due under these non-cancellable leases in future years are:

	31 March 2015 £000	**31 March 2016 £000**
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	191	201
Later than one year & not later than five years	529	467
Later than five years	947	862
	1,667	**1,530**

The expenditure charged to the Highways, Roads and Transport Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2014/15 £000	**2015/16 £000**
Minimum lease payments	190	200
	190	**200**

Authority as Lessor

The Authority leases various parcels of land and buildings to external organisations. The most significant are shown below:

Detail of lease	Term	Expiry date	Service group
The operation of a supermarket	99 years	20.12.2077	Planning
The rental of an industrial unit	25 years	31.05.2029	Planning
The provision of temporary accommodation	10 years	30.03.2021	Other Housing
The rental of office accommodation	20 years	24.07.2032	Corporate

The future minimum lease payments receivable under these non-cancellable leases in future years are:

	31 March 2015 £000	**31 March 2016 £000**
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	746	746
Later than one year & not later than five years	2,984	2,984
Later than five years	35,118	34,372
	38,848	**38,102**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

30. EXIT PACKAGES

The number of exit packages with total cost per band and total cost of voluntary, compulsory and other redundancies are set out in the table below:

Exit package cost band (incl. special payments)	**Number of voluntary redundancies**		**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band (£)**	
	2014/15*	**2015/16**	**2014/15***	**2015/16**	**2014/15***	**2015/16**	**2014/15***	**2015/16**	**2014/15***	**2015/16**
£0 - £20,000	36	3	4	-	-	-	40	3	**425,600**	**24,000**
£20,001 - £40,000	25	3	2	-	1	-	28	3	**807,100**	**99,200**
£40,001 - £60,000	8	5	-	-	-	-	8	5	**378,200**	**238,200**
£60,001 - £80,000	8	1	1	-	-	-	9	1	**647,900**	**72,800**
£80,000 - £100,000	3	-	1	-	-	-	4	-	**356,200**	**-**
£100,001 - £150,000	2	-	-	-	-	-	2	-	**228,500**	**-**
£150,001 - £200,000	3	-	-	-	-	-	3	-	**516,100**	**-**
£200,001 - £250,000	1	-	-	-	-	-	1	-	**221,300**	**-**
TOTAL	**86**	**12**	**7**	**-**	**2**	**-**	**95**	**12**	**3,580,900**	**434,200**

* The 2014/15 comparative has been restated to include future pension strain liability costs.

Note 1: Transformation Programme (T18) and Senior Management Restructure
Of the £434,200 cost of exit packages in 2015/16 (£3.58 million in 2014/15), £139,000 of this cost (£785,000 in 2014/15) will be paid for by West Devon Borough Council at the point at which the redundancy liability or pension strain liability arises. In addition, South Hams District Council will contribute Nil towards West Devon Borough Council’s cost of exit packages for 2015/16 (£160,000 in 2014/15).

The main phase of the Councils’ Transformation Programme (T18) occurred during 2014/15. Across both Councils there has been a 30% reduction in staffing numbers for the non manual workforce. South Hams District Council will annually save £2.6 million from the staff salary savings realised by the T18 Transformation Programme.

Also in 2014/15 a Senior Management Team restructure was undertaken and both Councils decided to operate without a Chief Executive and instead adopt an Executive Director Model. All six posts within the new Senior Leadership Team were appointed to through an external recruitment exercise with open competition. Five of the six posts were external appointments. One Group Manager post has since become vacant. The annual savings from the restructure of the Senior Management Team are £280,000 shared between the two Councils.

31. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

The administering authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2016/17 (as at 31 March 2016) and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2017 is £1.248m. The Actuary has estimated the duration of the Employer's liabilities to be 18 years.

Further information can be found in Devon County Council Pension Fund's Annual Report which is available upon request from The County Treasurer, Devon County Council, County Hall, Exeter, EX2 4QJ.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The movement in the pension scheme assets and liabilities together with the treatment of the corresponding transactions in the CIES is summarised in the following tables:

Comprehensive Income & Expenditure Statement	**2014/15 £000**	**2015/16 £000**
Cost of Services		
Service cost compromising		
- Current Service Cost	3,742	991
- Past Service Cost	607	1,420
Financing and Investment Income and Expenditure		
- Net Interest Expense	1,415	1,499
- Administration Expenses	43	33
Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	**5,807**	**3,943**
Other post-employment benefits charged to the comprehensive income and expenditure statement		
Re-measurement of the net defined benefit liability compromising;		
- Change in financial assumptions	14,503	(8,535)
- Experience loss/(gain)	39	(92)
- Return on fund assets in excess of interest	(4,715)	2,022
Total re-measurement recognised	*9,827*	*(6,605)*
Total post-employment benefits charged to the Comprehensive income and expenditure statement	**15,634**	**(2,662)**
Movement in Reserves Statement		
- Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(5,807)	(3,943)
Actual amount charged against the General Fund Balance for pensions in the year		
- Employers contributions payable to scheme	1,667	1,555

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

Net Pension Liability	**31 March 2015 £000**	**31 March 2016 £000**
Present value of the defined benefit obligation	123,966	118,473
Provision for Strain liability arising from future early retirements	1,625	344
Fair value of Fund assets	(82,160)	(79,294)
Deficit / (Surplus)	**43,431**	**39,523**
Present value of unfunded obligation	3,240	2,931
Net defined benefit liability / (asset)	**46,671**	**42,454**

Reconciliation of opening and closing balances of the fair value of Fund assets	**31 March 2015 £000**	**31 March 2016 £000**
Opening fair value of Fund assets	**75,990**	**82,160**
Interest on assets	3,304	2,655
Return on assets less interest	4,715	(2,022)
Administration expenses	(43)	(33)
Contributions by employer including unfunded	1,667	1,555
Contributions by Scheme participants	537	463
Estimated benefits paid plus unfunded net of transfers in	(4,010)	(5,484)
Closing fair value of Fund assets	**82,160**	**79,294**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	**31 March 2015 £000**	**31 March 2016 £000**
Opening defined benefit obligation	**108,694**	**128,831**
Current service cost	2,117	2,272
Provision for Strain liability	1,625	(1,281)
Interest cost	4,719	4,154
Change in financial assumptions	14,503	(8,535)
Experience loss / (gain) on defined benefit obligation	39	(92)
Estimated benefits paid net of transfers in	(3,805)	(5,282)
Past service costs, including curtailments	607	1,420
Contributions by Scheme participants	537	463
Unfunded pension payments	(205)	(202)
Closing defined benefit obligation	**128,831**	**121,748**

Basis for estimating assets and liabilities

Assets and liabilities are assessed by Barnett Waddingham, an independent firm of actuaries. As required under IAS19 they use the projected unit method of valuation to calculate the service cost.

To assess the value of the Employer's liabilities at 31 March 2016, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

To calculate the asset share they have rolled forward the assets allowing for investment returns (estimated where necessary), contributions paid into and estimated benefits paid from the Fund, by and in respect of the Employer and its employees.

The major assumptions are summarised in the following table:

Basis for estimating assets and liabilities	**31 March 2015**	**31 March 2016**
Mortality assumptions (in years):		
Longevity at 65 for current pensioners		
- Men	22.8	22.9
- Women	26.1	26.2
Longevity at 65 for future pensioners (in 20 years)		
- Men	25.1	25.2
- Women	28.4	28.6
Financial assumptions (in percentages):		
- RPI increases	3.2%	3.2%
- CPI increases	2.4%	2.3%
- Salary increases	4.2%	4.1%
- Pension increases	2.4%	2.3%
- Discount rate	3.3%	3.6%

The financial assumptions summarised in the table above are set with reference to market conditions at 31 March 2016.

The table below looks at the sensitivity of the major assumptions:

Basis for estimating assets and liabilities	**Decrease in assumption £000**	**No change £000**	**Increase in assumption £000**
Rate of change in RPI inflation (increase or decrease by 1%)	41,095	42,454	43,813
Rate of change in CPI inflation (increase or decrease by 1%)	41,478	42,454	43,430
Rate of increase in salaries (increase or decrease by 1%)	40,713	42,454	44,195
Rate of increase in pensions (increase or decrease by 1%)	41,478	42,454	43,430
Rate of discounting scheme liabilities (increase or decrease by1%)	40,926	42,454	43,982

The estimated asset allocation for South Hams District Council as at 31 March 2016 is as follows:

Employer asset share	**31 March 2015**		**31 March 2016**	
	£000	**%**	**£000**	**%**
Gilts	5,227	6%	2,603	3%
UK equities	20,253	25%	19,066	24%
Overseas equities	28,341	34%	25,749	32%
Property	8,213	10%	8,768	11%
Infrastructure	2,277	3%	3,303	4%
Target return portfolio	12,115	15%	11,488	15%
Cash	1,416	2%	1,471	2%
Other bonds	2,857	3%	2,279	3%
Alternative assets	1,461	2%	4,567	6%
Total	**82,160**	**100%**	**79,294**	**100%**

Of the total fund asset at 31 March 2016, the following table identifies the split of those assets with a quoted market price and those that do not:

Employer Asset Share – Bid Value		**31 March 2016**	
		% Quoted	**% Unquoted**
Fixed interest government securities	UK	0.1%	-
	Overseas	3.2%	-
Corporate bonds	UK	0.2%	
	Overseas	2.7%	
Equities	UK	22.5%	1.6%
	Overseas	28.3%	4.0%
Property	All	-	11.1%
Others	Absolute return portfolio	14.5%	-
	Infrastructure	-	4.2%
	Multi sector credit fund	5.8%	-
	Cash/Temporary investments	-	1.7%
Net current assets	Debtors	-	0.1%
	Creditors	-	(0.0%)
Total		**77.3%**	**22.7%**

32. CONTINGENT LIABILITIES

The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now Devon and Cornwall Housing) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements;
- Re-financing risk - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the *Local Government Act 2003* and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures regarding the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.

- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported to Members during the year.

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by the Executive on 5 March 2015 and is available on the Council's website.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code.

<u>Credit risk</u>

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Council's customers. An analysis of the Council's investments is provided in Note 10 to the accounts.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch and Moody's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The full Investment Strategy for 2015/16 was approved by the Executive on 10 March 2016 and is available on the Council's website. The Council's investment priorities are: -

- the security of capital and
- the liquidity of its investments

Since October 2008 we have used an ultra cautious investment strategy to avoid the possibility of potential losses. However, this has come at a cost; investing in virtually risk free institutions, namely the UK Government and Local Authorities, means that we must accept a much lower interest rate on our investments.

No breaches of the Council's counterparty criteria occurred during the reporting period. With the exception of the investment with the Heritable Bank the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2016 and is reflected in the current figure of £525,000. This compares to £627,000 in 2014/15. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 11 to the accounts.

Liquidity risk

The Council is debt free but has ready access to borrowings from the Money Markets to cover any day to day cash flow need. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

Therefore there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 12 to the accounts.

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. A rise in interest rates would have the following effects:

- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Account will rise
- Investments at fixed rates – the fair value of the assets will fall

Changes in interest receivable on variable rate investments are posted to the Comprehensive Income and Expenditure Account and affect the General Fund Balance £ for £.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements.

From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately.

If all interest rates had been 1% higher, with all other variables held constant, the financial effect would be that an additional £290,000 in interest would have been generated.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The Council, excluding the pension fund, does not invest in instruments with this type of risk (e.g. equity shares or marketable bonds).

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Refinancing and Maturity Risk

The Council maintains a significant investment portfolio. Whilst the cash flow procedures are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year, are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team addresses the operational risks within the approved parameters.

This includes monitoring the maturity profile of investments to ensure that sufficient liquidity is available for the Council's day to day cash flow needs. The spread of longer term investments provides stability of maturities and returns in relation to the longer term cash flow needs.

34. ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounting policies are applicable to all of the Council's transactions including those of the Collection Fund (council tax and business rates).

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council operates a de minimis policy for accruals. For revenue expenditure the de minimis increased from £1,000 to £2,500 in 2015/16. The accruals limit for capital expenditure remains at £5,000.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Our policy is shown in the following table:

Type of Investment	**Settlement Terms**	**Gain/Loss on Sale**	**Cash Equivalent**
Money Market Fund	T + 0	✗	✓
Call Account	T + 0	✗	✓
Notice Deposit	Maturity	✗	✗
Term Deposit	T + 7 days	✗	✓
Other Term Deposits	Maturity	✗	✗

Key: T = trade date

The Council's view is that investments made with an investment period of greater than 7 days would not be classified as cash equivalents because they are not sufficiently liquid to meet short term cash commitments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

d) Material items of Income and Expense

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

e) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

f) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These changes are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement, for the difference between the two.

g) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement, to terminate at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Authority are members of the Local Government Pensions Scheme, administered by Devon County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Local Government Scheme

The Local Government Scheme is accounted for as a defined benefits scheme in the following way:

- The liabilities of the Devon County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and estimates of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate.

- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value.

For further information please refer to Note 31.

The change in the net pension liability is analysed into the following components:

- **Service cost comprising:**
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- **Re-measurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - contributions paid to the Devon County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) <u>Events after the Reporting Period</u>

Events after the Reporting Period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) <u>Financial Instruments</u>

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments (the Council does not currently hold any available-for-sale assets).

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service), or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair Value

The Council measures some of its assets and liabilities at their fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes places either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 – unobservable inputs for the asset or liability.

Recognition and measurement of financial instruments

The main measurement bases used by the Council in preparing the treatment of Financial Instruments within its financial statements are as follows:

Financial Instrument	Basis of Measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality.	See also accounting policy on cash equivalents.
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate. The carrying amount has been adjusted for an assessment of bad debts. See Note 33 within 'credit risk' for further information.
Operational creditors	Held at invoiced or billed amount.	Carrying amount is a reasonable approximation of fair value for these short term liabilities.

j) Government Grants and Contributions

General

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments and

- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

k) Heritage Assets

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture. The Council has reviewed its insurance and assets registers and has not identified any material assets that require disclosure.

l) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. As with Property, Plant and Equipment a de minimis level of £10,000 has been set for capitalisation.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over 3 years to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation charges are not permitted to have an impact on the General Fund Balance. Therefore, these charges are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

m) Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

n) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

o) Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

p) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets (i.e. embedded leases).

The Authority as Lessee

Finance Leases

The Council does not hold any finance leases as a lessee.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made in accordance with the lease terms.

The Authority as Lessor

Finance Leases

The Council does not hold any finance leases as a lessor.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement and is credited in accordance with the lease terms.

q) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2015/16* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

The costs of the Council's support services and related overheads are allocated to the services based on the budgeted time allocations for the year, updated for known demands on officer time, in accordance with the requirements of SeRCOP. The bases of allocation used for the main costs are outlined below:

Cost	**Basis of allocation**
Staffing and related overheads	Cost of time spent by staff based on time allocations or the most appropriate cost driver e.g. head count, case load etc.
Administrative buildings	Area occupied.
IT costs	Usage of major systems plus a standard charge per PC/printer.

r) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but at a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De minimis policy for capital controls and accounting purposes

CIPFA have not set specified de minimis levels and it is up to authorities to decide for themselves having regard to their particular circumstances.

In order to reduce the administrative burden a general de minimis limit of £10,000 has been set for the recognition of capital expenditure except for:

- Vehicles, Vessels and Plant for which the limit is £7,000
- Loans which have no limit

Component Accounting

The International Financial Reporting Standards (IFRS) code requires separate accounting for depreciation of significant components of assets that are:

- acquired on or after 1 April 2010
- enhanced on or after 1 April 2010
- revalued on or after 1 April 2010

Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge.

Significant components which have different useful lives and/or depreciation methods, will be accounted for separately.

Where a component is replaced or restored, the carrying amount of the old component shall be derecognised and the new component reflected in the assets carrying amount, subject to the recognition principles of capitalising expenditure. Derecognition of a component from the Balance Sheet takes place when no future economic benefits are expected from its use. Such recognition and derecognition takes place regardless of whether the replaced part has been depreciated separately.

Assets eligible to be considered for componentisation are those classified within the following categories:

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

1. Non-Depreciable Land
2. Assets Under Construction
3. Investment Properties
4. Infrastructure
5. Plant & Equipment
6. Community Assets
7. Intangible Assets

The criteria for components to be separately valued are that:

De minimis threshold - *The overall gross asset value must be in excess of £400k to be considered for componentisation* ***and***

Materiality - *The component must have a minimum value of £200k* ***or***
be at least 20% of the overall value of the asset (whichever is the higher) ***and***

Asset lives - *The estimated life of the component is less than half of that of the main asset.*

All three rules above must be met to consider componentisation.
These rules will apply to revaluations and when replacing components within an asset.

Where enhancement is integral to the whole asset then unless there is significant evidence to the contrary, the asset life of the enhancement will have the same remaining life as the existing asset and will not be separately identified as a component.

Where assets are material and will therefore be reviewed for significant components, it is recommended that the **minimum** level of apportionment for the non-land element of assets is:

- Plant and equipment and engineering services
- Structure

The Valuer will assign to each standard property type a group of significant components common to all property assets within that property type.

Where a component is replaced the existing component shall be derecognised and the new component cost added to the carrying amount. The amount derecognised will be estimated based on the cost of the replacement part. This principle will apply to componentised and non-componentised assets.

Assets and asset components will be revalued in accordance with the annual valuation schedule agreed with the Valuer. The Valuer will be responsible for providing valuations apportioned in accordance with the assets property type.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation, that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on a straight-line allocation over the useful life of the asset. Useful lives are determined on a case by case basis. Typical useful lives are:

Asset	**Useful life**
Buildings	Sixty years
Infrastructure	Twenty years
Refuse vehicles	Seven years
Light vans	Five years
Marine vessels	Fifteen years
IT equipment	Four years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost, being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written-off value of disposals is not a charge against council tax, as the cost of assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

s) <u>Provisions, Contingent Liabilities and Contingent Assets</u>

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. The Council operates a disclosure de minimis policy for contingent liabilities and assets of £50,000.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

t) Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

u) Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

v) Section 106 Deposits

Where repayment conditions exist, developer contributions are treated as revenue receipts (Long Term Liabilities in the Balance Sheet) unless a clear capital use is identified in the terms of the agreement. In the latter case they are defined as Capital Receipts in Advance. Where no conditions are attached to the agreement, they are either treated as capital grants unapplied or credited directly to services if revenue in nature.

w) Shared Services

Since 1 October 2011, all services operated by West Devon Borough Council and South Hams District Council have been shared at senior management level and middle management level.

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc and other methods such as time recording. The work carried out includes establishing from the Head of Service/Group Manager the relevant recharge requirements for every member of staff who is deemed to have duties that are shared between the two Authorities.

x) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

y) Accounting for Local Taxes

Business Rates

Retained business rate income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this list an assessment is made about the likely success rate of appeals and their value.

Council Tax

Council tax income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

Both business rates income and council tax will be recognised in the Comprehensive Income & Expenditure Statement (CIES) in the line 'taxation & non-specific grant income'. As a billing authority the difference between the business rates and council tax included in the CIES and the amount required by regulation to be credited to the General Fund, shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued business rates and council tax income will be available from the information that is required to be produced in order to prepare the Collection Fund Statement. The income for council tax and business rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.

Revenue relating to local taxes shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

35. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) introduces changes in accounting policies that will have to be adopted fully by the authority in the 2016/17 financial statements i.e. from 1 April 2016.

The authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new / amended standard that has been issued, but is not yet required to be adopted by the Authority.

The following new standards have been adopted into CIPFA's Code of Practice for 2016/17;

- IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17.

- The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

- Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Statement of Accounts.

36. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 34, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs.

- The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this information an assessment was made about the likely success rate of appeals and their value. In 2015/16 there has been a £26.7 million increase in the provision within the Business Rates Collection Fund due to an unusual and high value appeal currently outstanding with the Valuation Office. At present there is limited case law and history to assist in forming an opinion on a suitable provision amount and a significant financial risk to the Council, therefore officers, in conjunction with Members, have taken the decision to provide for 100% of the appeal. This decision was ratified by the Audit Committee in July 2016. Further details are contained within the Narrative statement on page 12.

SECTION 4. COLLECTION FUND

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2014/15 Business Rates £000	2014/15 Council Tax £000		2015/16 Business Rates £000	2015/16 Council Tax £000
		INCOME		
-	(58,038)	Income from Council Tax	-	(59,780)
(28,857)	-	Business Rates Receivable	(31,512)	-
(1,624)	-	Less: Transitional Relief	45	-
(30,481)	**(58,038)**		**(31,467)**	**(59,780)**
		EXPENDITURE		
		Precepts, Demands & Shares:		
14,934	-	Central Government	15,101	-
2,688	41,274	Devon County Council	2,718	42,510
-	6,023	Devon & Cornwall Police Authority	-	6,204
299	2,787	Devon & Somerset Fire Authority	302	2,871
11,948	6,868	South Hams District Council (net including Towns/Parishes)	12,081	7,005
281	-	Business Rates written off and change in impairment allowance	268	-
-	295	Council Tax written off and change in impairment allowance	-	307
473	-	Business Rates increase in provision for appeals *	26,702	-
206	-	Business Rates – Costs of collection	206	-
		Distribution/collection of previous year's estimated surplus/(deficit):		
(1,319)	-	Central Government	(133)	-
(237)	363	Devon County Council	(24)	598
-	53	Devon and Cornwall Police	-	87
(26)	24	Devon and Somerset Fire Authority	(3)	40
(1,055)	60	South Hams District Council	(107)	100
28,192	**57,747**		**57,111**	**59,722**
(2,289)	**(291)**	**MOVEMENT ON BALANCE ***	**25,644**	**(58)**

*The increase in the provision for Business Rates appeals and the subsequent impact on the Business Rates Collection Fund is explained in the Narrative Statement on page 12 and in note 36 – Critical Judgements in Applying Accounting Policies on page 99.

1. Council tax and council tax base

In 2015/16, the Council's average Band D Council Tax was £1,600.52 (£1,571.09 in 2014/15). The charge for each band is a ratio of band D. The 2015/16 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	889.18
A	6/9	1,067.01
B	7/9	1,244.85
C	8/9	1,422.68
D	1	1,600.52
E	11/9	1,956.19
F	13/9	2,311.86
G	15/9	2,667.53
H	18/9	3,201.04

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2015/16 was **36,606.88** as calculated below (36,250.26 in 2014/15).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A		10.75	10.75	5/9	5.97
A	4,880.00	(812.25)	4,067.75	6/9	2,711.83
B	8,543.00	(940.00)	7,603.00	7/9	5,913.44
C	8,426.00	(755.00)	7,671.00	8/9	6,818.67
D	7,880.00	(3,694.24)	4,185.76	1	4,185.76
E	6,516.00	(432.75)	6,083.25	11/9	7,435.08
F	3,593.00	(162.50)	3,430.50	13/9	4,955.17
G	2,948.00	(154.25)	2,793.75	15/9	4,656.25
H	327.00	(23.25)	303.75	18/9	607.50
Total	**43,113.00**	**(6,963.49)**	**36,149.51**		**37,289.67**
Less allowance for non collection					(745.79)
Plus adjustment for armed forces dwellings					63.00
Tax base					**36,606.88**

2. Rateable value

The total business rates rateable value at 31 March 2016 was £83,223,035. This compares to £82,739,172 at 31 March 2015. The standard business rates multiplier was 49.3p in 2015/16 (2014/15: 48.2p). Without reliefs this would generate a total income of £41,028,956.25 (2014/15 £39,880,280.90). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection fund balance

2014/15 Business Rates £000	2014/15 Council Tax £000		2015/16 Business Rates £000	2015/16 Council Tax £000
2,724	(1,771)	Fund balance at 1 April	435	(2,062)
(2,289)	(291)	Deficit/(surplus) for year*	25,644	(58)
435	**(2,062)**	**Fund balance as at 31 March – deficit/(surplus)***	**26,079**	**(2,120)**

*The increase in the provision for Business Rates appeals and the subsequent impact on the Business Rates Collection Fund is explained in the Narrative Statement on page 12 and in note 36 – Critical Judgements in Applying Accounting Policies on page 99

The balance on the Collection Fund is split between the preceptors as follows:

2014/15 Business Rates £000	2014/15 Council Tax £000		2015/16 Business Rates £000	2015/16 Council Tax £000
218	-	Central Government	13,039	-
39	(1,495)	Devon County Council	2,347	(1,539)
-	(218)	Devon and Cornwall Police	-	(223)
4	(101)	Devon and Somerset Fire Authority	261	(103)
261	**(1,814)**	**Total deficit/(surplus) due to Preceptors**	**15,647**	**(1,865)**
174	(248)	South Hams District Council	10,432	(255)
435	**(2,062)**	**Fund balance as at 31 March – deficit/(surplus)**	**26,079**	**(2,120)**

SECTION 5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS.

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Finance Community of Practice Lead (S151 Officer)

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

- approve the Statement of Accounts

Responsibilities of the Finance Community of Practice Lead (S151 Officer)

The Finance Community of Practice Lead (S151 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 ('the Code of Practice').

In preparing this Statement of Accounts, the Finance Community of Practice Lead (S151 Officer) has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice

The Finance Community of Practice Lead (S151 Officer) has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that the Audited Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2016.

……………………………………………

Lisa Buckle BSc (Hons), ACA
Finance Community of Practice Lead (S151 Officer)

22 September 2016

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee as its meeting held on 22 September 2016.

Signed on behalf of South Hams District Council

……………………………………………..

Councillor K R H Wingate

Chairman of the Audit Committee

22 September 2016

Independent auditor's report to the members of South Hams District Council

We have audited the financial statements of South hams District Council for the year ended 31 March 2016 on pages 28 to 102. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

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 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 the financial statements 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 Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement 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 the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Conclusion on South Hams District Council'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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether South Hams District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Hams District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, South Hams District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

SECTION 6. AUDITORS' REPORT

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are 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 ended 31 March 2016.

Certificate

We certify that we have completed the audit of the financial statements of South Hams District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Darren Gilbert

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

3 Assembly Square
Brittania Quay
Cardiff
CF10 4AX

ACCRUALS
A sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or works done, but for which payment has not been received/made by the end date of the period for which the accounts have been prepared.

ACTUARIAL GAINS & LOSSES
These are changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed.

BALANCES
The surplus or deficit on any account at the end of the year. Amounts in excess of that required for day to day working may be used to reduce the demand on the Collection Fund.

CAPITAL EXPENDITURE
Expenditure on the acquisition of an asset or expenditure which adds to and not merely maintains the value of an existing asset.

CAPITAL RECEIPTS
Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loan.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)
The governing body responsible for issuing the statement of recommended practice to prepare the accounts.

COLLECTION FUND
A separate fund which must be maintained by a district for the proper administration of council tax and business rates.

CURRENT SERVICE COST
Amount chargeable to Services based on the Actuary’s assessment of pension liabilities arising and chargeable to the financial year.

CURTAILMENTS
This is the amount the Actuary estimates as the cost to the Authority of events that reduce future contributions to the scheme, such as granting early retirement.

DEFINED BENEFIT SCHEME	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
DEMAND	The charging authorities own Demand is, in effect, its precept on the fund.
FAIR VALUE	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
FEES & CHARGES	In addition to the income from charge payers and the Government, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
FINANCIAL INSTRUMENTS	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
GOVERNMENT GRANTS	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
IMPAIRMENT ALLOWANCE ("BAD DEBT PROVISION")	Provisions against income to prudently allow for non collectible amounts.
INTEREST COST	For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) & THE CODE OF PRACTICE (CODE)	Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

PAST SERVICE COST	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.
PRECEPT	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
PROJECTED UNIT METHOD	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
RATEABLE VALUE	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of salaries and wages, and general running expenses etc.
SETTLEMENTS	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability.
STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement.
SUNDRY CREDITORS	Amounts owed by the Council at 31 March.
SUNDRY DEBTORS	Amounts owed to the Council at 31 March.

South Hams District Council
Annual Governance Statement
2015 – 2016

1. Scope of Responsibility

South Hams District Council is responsible for ensuring that:

- its business is conducted in accordance with legal requirements and proper standards
- Public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, South Hams District Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk. A Statutory Officers' Panel was set up in 2015-16 and a key role of this Panel is strategic risk management.

South Hams District Council and West Devon Borough Council have been shared services partners since 2007. As two of the very first Councils to share a Chief Executive in 2007, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation.

In early 2015 a completely new leadership team were appointed to lead the organisation through the transformation programme, become more customer-focused, save money, and explore ways of generating income for the Council. The Councils are now led by a small leadership team consisting of two Executive Directors and three Group Managers.

The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council set by Members. SLT are supported by an Extended Leadership Team (ELT). The ELT includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, and Support Services such as Finance, Legal, and Human Resources.

The Council's Community of Practice Lead for Finance is the officer with statutory responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

The S.151 Officer, who acts as the Chief Financial Officer (CFO), will have responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity, and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and, will provide financial information to the media, Members of the public and the community. (Constitution Article 10)

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules. The Council's S.151 Officer is a qualified accountant.

A review of the Council's arrangements against the CIPFA guidance on the Role of the Chief Finance Officer in Local Government concluded that the recommended criteria have been met in most areas. There is one exception to the standard in that the Chief Finance Officer is not a member of the Council's Senior Leadership Team (SLT). However, she has full access to the SLT agenda, reports and actions arising from the meetings and is able to attend SLT on any item. In addition, the S151 Officer attends SLT on a monthly basis to give a financial review and update. Direct access to the Head of Paid Service is also available on a regular basis. Her influence and impact on financial management is not deemed to be compromised by this local arrangement.

South Hams District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code can be obtained from the Finance Community of Practice Lead. This statement explains how South Hams District Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. The Purpose of the Governance Framework

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost-effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework was in place at South Hams District Council for the year ended 31 March 2016 and is expected to continue up to the date of approval of the Accounts by the Audit Committee.

The Chartered Institute of Public Finance and Accountancy (CIPFA) have identified six principles (key elements) of corporate governance that underpin the effective governance of all local authorities. South Hams District Council has used these principles when assessing the adequacy of its governance arrangements. The main items that contribute to these key elements are listed below:

Core principle/key element 1: focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

- The Council's policies, aims and objectives are well established and monitored at various levels, for example forward plans, annual service planning process and personal development reviews
- The Council's adopted Priorities are confirmed in Article 6 of the Constitution and are published on the Council's website
- In March 2016 the Overview and Scrutiny Panel and the Executive considered the 'Our Plan: South Hams' which is a single strategic document that sets out the vision, objectives and activities of the Council. It brings together all strategies and plans and sets out a comprehensive story of what the Council wants to achieve through two blended and inter-related elements;

  i) The corporate plan establishing the Council's vision, objectives, priorities, actions and delivery approaches and
  ii) The Local Plan establishing land use planning policies and allocations – the Council's work on the Joint Local Plan between Plymouth City, South Hams, West Devon and Dartmoor National Park is described further below.

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=134&MId=48&Ver=4

Through ‘Our Plan’ we are striving to achieve communities that have access to housing, employment, services and facilities that meet their needs, communities that are resilient, safe and able to make choices about their future.

Our communities are places where businesses can develop and grow. We want to ensure Our Plan makes a positive contribution to the equality, fairness and wellbeing of our communities.

The Our Plan Themes and Objectives are:-

- Economy – Creating places for enterprise to thrive and business to grow
- Homes – Enabling homes that meet the needs of all
- Infrastructure – Securing the services and facilities that meet the needs of our communities
- Communities – Empowering residents to create strong communities
- Wellbeing – Supporting positive safe and healthy lifestyles
- Environment – Protecting, conserving and enhancing our built and natural environment
- Heritage – Celebrating our past and protecting our heritage for the future
- Resources – Promoting energy efficiency and more effective use of our natural resources

In tandem, work has begun to develop a Joint Local Plan between Plymouth City, South Hams, West Devon and Dartmoor National Park. Work on this joint plan is due to be completed by early 2017; a key milestone for those wishing to progress their Neighbourhood Plans.

- All staff briefings undertaken by SLT articulate the vision and new ways of working;
- The Council’s corporate strategy (T18) has been implemented supported by a detailed project plan that has been made widely available;
- Regular consultation is undertaken on a range of issues;
- Effective budgetary monitoring takes place regularly and is reported quarterly to Members
- Cashable savings identified in the T18 programme are on target;
- Performance management and reporting is embedded including quarterly reporting to the Overview and Scrutiny Panel;
- Scrutiny teams have delivered tangible outcomes.

Core principle/key element 2: members and officers working together to achieve a common purpose with clearly defined functions and roles

- The Council’s T18 programme clearly identifies it’s priorities, goals and promises statement which exemplifies its vision and values
- Performance measures are linked to drivers, goals and the service/Council priorities and these have continued through 2015/16.

- The Council uses a suite of performance indicators that includes measurement of the quality of service. A ‘Balanced Scorecard’ system of regular reporting of the key indicators to the Senior Leadership Team (SLT) and Members (Overview and Scrutiny Panel) is in place.
- The Council is also instigating a new suite of performance management dashboards, which will give Members and management access to near real-time information on demand and service levels.
- The Council publishes a Medium Term Financial Strategy (MTFS) each year, which covers a five year period. That for the period 2016/17–2020/21 was approved by the Executive in October 2015 and has regard to the Priorities, business planning – pressures and savings
- There is a single organisation approach between Members and Officers
- The Council’s Constitution clearly states the roles and responsibilities of Members and Senior Officers
- Terms of reference for Committees and Member responsibilities are clearly defined
- Clear delegations and accountabilities are laid down in the Constitution
- Officers are appointed with clear job descriptions
- Adoption of statutory and professional standards
- Compliance with Financial Procedure and Contract Procedure Rules that are reviewed and approved by the Council
- Appropriate segregation of duties and management supervision
- The role of the Chief Finance Officer (s151 Officer), as documented in the Constitution, has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and maintaining an effective system of internal financial control.
- The role of the Monitoring Officer (MO), as documented in the Constitution, has responsibility for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with.
- There is an annual process to review and agree the Pay Policy Statement in accordance with the Localism Act Section 38.

Core principle/key element 3: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- Staff assessed against a set of key behaviours (known as ‘IMPACT’) to establish the right values and culture
- The Council’s whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council’s Intranet (including Frequently Asked Questions) and is also publicised internally on an occasional basis to maintain its profile.
- The Council’s Constitution also defines the roles of Members and officers. Part 5 of the Constitution includes a Protocol on Councillor / Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted Members of Council bodies in their dealings with officers where appropriate.

- There are codes of conduct in place for Members and Officers which include arrangements for registering interests and managing conflicts of interest.
    - The Overview and Scrutiny Panel is responsible for overseeing the Members' Code of Conduct and good governance by Members, and its terms of reference are set out in the Constitution
    - There is an effective Audit Committee in place with clear terms of reference.

Core principle/key element 4: taking informed and transparent decisions which are subject to effective scrutiny and management of risk

Following the Boundary Review and the local elections, 2015/16 was the first year for the new 31 Member Council. To coincide with the reduction in Members, a new governance structure was implemented whereby all 31 Members served on one of either: the Executive; the Overview and Scrutiny Panel, or the Development Management Committee.

Other notable changes were that the Executive membership was reduced from eight to six and the number of Overview and Scrutiny Panels was reduced from three to one.

With regard to the Executive portfolio areas, these were no longer linked to service areas, but were each now aligned to a representative of the Council's Senior Leadership Team.

- Members on the Overview and Scrutiny Panel receive training on effective scrutiny practices
- Decisions taken are formally minuted
- Committee Members are aligned to service areas and regularly communicate with and provide strategic direction to the relevant SLT lead
- The formal management of risk is in place and subject to monitoring by the Senior Leadership Team and reporting to the Audit Committee.
- A Statutory Officers' Panel which meets quarterly has been set up comprising of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer with other key officers invited as appropriate. This Panel amalgamates the former Probity Group, Risk Management Group and Governance Group, and its key roles are to ensure that the Councils comply with, and manage:

    - Governance frameworks
    - Strategic risk management, and
    - Regulatory framework

The Statutory Officers' Panel has important links with the Audit Committee and the Overview & Scrutiny Panel.

- A separate risk register is maintained for the T18 Transformation Programme.
- Active health and safety arrangements, including a robust policy, reviewed and approved by members, regular consideration of issues at SLT.
- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Quarterly budget monitoring reports are presented to the Executive.
- Formal quarterly budgetary monitoring reports on T18 are reviewed as part of the T18 programme and are reported quarterly to the Executive
- Active performance management arrangements
- A robust complaints/ compliments procedure is in place and is widely publicised
- Freedom of Information requests are dealt with in accordance with established protocols
- All committee reports include reference where relevant to the potential impact on the Council's priorities and community plan themes, and address as appropriate any financial, staffing, risk, legal and property implications.

Core principle/key element 5: developing the capacity and capability of members and officers to be effective

- An induction programme is in place for Officers and Members
- A Member training and development programme is in operation
- Deputy s151 and Monitoring Officer in place
- Officer training programmes are considered at each Staff Appraisal
- Focused training is delivered on specific issues (e.g. complaints, data protection)
- A staff survey was carried out to gauge employee satisfaction and assist in improving the organisation for employees as a place to work and consequently improve how the organisation performs.

Core principle/key element 6: engaging with local people and other stakeholders to ensure robust public accountability

- Our Plan was considered by Members in March 2016
- There is regular community engagement and participation both in general and for specific community groups and services provided, for example, Parish Councils
- Committee and Council meetings are open to the public, with papers available in advance on the internet (save where 'exempt' under the Local Government Act 1972 following formal evaluation of the public interest)

3. Process for maintaining and reviewing effectiveness of the Council's Governance arrangements

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This responsibility is in practice carried out by Senior Managers, with the Executive Director informing the Executive of any significant matters warranting their attention.

The Council ensures the delivery of services in accordance with Council policies and budgets, which includes long term financial planning, good financial management and ensuring up to date risk management across the Council.

The Overview and Scrutiny Panel is responsible for performing a review function which in 2015/16 included specific work on;

- Overview and Scrutiny Member Learning and Development Plan
- Service Level Agreement for the Citizen's Advice Bureau
- Service Level Agreement for the CVS
- Waste Task and Finish Group – Review and Future Plan
- Dartmouth Lower Ferry Task and Finish Group
- Performance Measures – Task and Finish Group
- Partnerships Task and Finish Group
- Events Policy Task and Finish Group
- Devon Home Choice and Local Allocations Policy Review
- Ombudsman Update and Annual Review Letter
- Community Safety Partnership
- Disabled Facilities Grants
- Review of Fees and Charges 2016/17
- New Homes Bonus Allocation to Dartmoor National Park Authority
- Progress against Our Plan: South Hams
- Dispensations for Dual Hatted Members
- Business Development Group Manager Update
- Income Generation Opportunities
- Update report of RDPE – LEAF/LAG Programme
- Budget Proposals 2016/17
- Performance Updates – e.g. Contact Centre, Development Management
- Health and Wellbeing (Leisure) procurement update
- Complaints Policy
- Homeless Strategy
- Locality Delivery

The Overview and Scrutiny Panel continue to review and scrutinise the Council's performance monitoring reports via T18 programme against the Council's corporate strategy and quarterly performance indicator reports.

In addition, the Committee also considered agenda items related to the attendance of representatives from the following external agencies/partners:

- Dartmouth and District Indoor Pool Trust
- Maritime and Coastguard Agency
- Annual Devon & Cornwall Housing (DCH) Presentation

The Audit Committee has a specific role in relation to the Council's financial affairs including the internal and external audit functions and monitors the internal workings of the Council (broadly defined as 'governance'). It is responsible for making sure that the Council operates in accordance with the law and laid down procedures and is accountable to the community for the spending of public money.
The Audit Committee reviewed all aspects of the Council's strategic performance and resource management arrangements, including budgeting, accounting and treasury management.

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by managers who have responsibility for the development and maintenance of the internal control environment; and also by comments made by external auditors and other review agencies/inspectorates.

Internal Audit

South Ham's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2011. This responsibility is delegated to the Community of Practice Finance lead and S151 Officer.

The Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources.

All audit reports go to the Senior Leadership Team who agree any recommendations. Members receive an annual report of internal audit activity and approve the annual audit plan for the forthcoming year.

The Internal Audit annual report for 2015/16 is also due to be considered by the Audit Committee on 30 June 2016. The report contains the Head of Internal Audit's Opinion which is that "Based on the work performed during 2015/16 and that of their experience from previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework. This view forms part of the Annual Governance Statement for 2015/16.

Senior Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit.

All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls. This is done on a checklist covering the following areas: Council objectives and service plans, staffing issues, corporate procedure documents, service specific procedures, risk management, performance management and data quality, and action on independent recommendations. This checklist is reviewed by the Executive Directors.

<u>External auditors and other review agencies/inspectorates</u>

Our external auditors (Grant Thornton) have not identified any significant weaknesses in our internal control arrangements when working with us throughout the year and in their 'Audit Findings' report.

The Grant Thornton 'Audit Findings' report for 2014-15 was presented to the Audit Committee in September 2015. Grant Thornton gave an unqualified opinion on the Council's financial statements and stated:

- The accounts were free of significant errors; and
- Grant Thornton have not identified any adjustments that would affect the Council's reported financial position.

Value for Money audit conclusion – Also contained within the 'Audit Findings' report, Grant Thornton stated that they were 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 2015. The report gave the Council a 'Green' rating (the highest rating possible, which indicated adequate arrangements are in place) in all the areas assessed of strategic financial planning, financial control, financial governance, prioritising resources and improving efficiency and productivity.

The 'Audit Findings' report identified two areas of Internal Control which were given an 'Amber' rating which signified Adequate arrangements were in place, but with areas for development. These were:-

- Fixed Asset Register – The asset software system should be updated to ensure it agrees with the amounts disclosed in the Accounts. There was a small imbalance of 0.5% between the classification between cost or valuation and accumulated depreciation. (The Council has progressed meetings with the software supplier in 2016 to rectify this issue).
- Journals – All journals should have a narrative description to explain the nature and purpose of the transaction. (A reminder was sent to all staff

who processed journals to emphasize the importance of adequate narrative on all journals).

For the 2015-16 year our external auditors have changed to KPMG. They have issued their 'Interim Audit Report 2015/16' which has the following headline messages:-

- The Council's organisational control environment is effective overall.
- The Council has appropriate procedures for monitoring budgets, strategic plans and risks, and compliance with its constitution. Sufficient procedures are also in place for identifying related parties and responding to fraud. The IT team and structure in place at the Council has been reduced in size, but provides the key functions that we would expect of such an authority. Our review of Internal Audit's work, however, did suggest that annual disaster recovery exercises have not been performed, combined with issues identified in relation to the communication and updating of documents in the area of emergency planning.
- Key financial systems are generally sound. However KPMG did identify some potential improvements including the timely review of benefit payments and reconciliations and retaining evidence of manual checking. There were also recommendations from KPMG on including more narrative on reconciliations for unmatched items and on the electronic retention of documents to meet HR procedures.
- KPMG also make reference to the lack of formal evidence of review of financial control account reconciliations, since the Council has become paperless. The Council will explore the possibility of implementing digital signatures.
- The Interim Audit report by KPMG for 2015-16 also states that reports and working papers produced by Internal Audit appeared to be of an appropriate standard and that the Authority's overall process for the preparation of the financial statements is strong.

I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

4. Significant Governance Issues

The following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

Issues and action plan from the Compliance Review of the Code of Corporate Governance

Principle 1: Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area:

Issue Identified	Action to be Taken	Responsible Officer
T18 Transformation Programme South Hams District Council and West Devon Borough Council have undertaken innovative plans to transform the way the Councils carry out their work, casting aside the traditional ways of local government. Long-established Council departments have been replaced by customer-focussed teams of officers who work out of the office and more within the community. The Councils have invested in the latest technology and the Councils' workforce is smaller, reducing the need for office accommodation, and all staff roles have changed. The introduction of a new IT system whilst at the same time the Council's workforce having been reduced by 30%, has meant that performance in some key areas has been below that which should be expected. On 16th June 2016 the Executive considered a report on Transitional Resources. The Executive have recommended to Council (on 30th June) to approve the re-investment of £0.5 million of T18 savings and new homes bonus funding, to fund the transitional staffing resources set out in the report.	Quarterly monitoring reports on the Transformation Programme are presented to the Council's Overview and Scrutiny Panel and Executive. The T18 risk register is reviewed quarterly as a minimum by the Senior Leadership Team (SLT) and Programme Board, and is presented to the Audit Committee every six months. This will continue for the duration of the programme. In recognition of the early successes of this innovative transformation programme the Council achieved national recognition as Council of the Year for 2016 at the recent iESE (the Improvement & Efficiency Social Enterprise) Awards. The Council's Head of Paid Service and Group Manager have regular weekly meetings with the IT software supplier. Transitional Resources Report to Executive (16/6/16) and Council (30/6/16)	Senior Leadership Team S.151 Officer Monitoring Officer Internal Audit Manager Timescale in line with the Programme. Programme Board for T18 Audit Committee

Issues and action plan from the System of Internal Control:

The system of internal control is described in section 2 above.

Issue Identified	Action to be Taken	Responsible Officer & Target Date
Financial Uncertainty As Local Authorities experience reductions in funding, although South Hams District Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions. A Medium Term Financial Strategy (MTFS) was presented to the Executive in October 2015 setting out the current position and was regularly updated throughout the 2016-17 Budget Setting process. There is still more to be done but the Council is establishing a solid base from which to become more commercial in its approach to meeting the forecast budget gap of £1,009,835 by 2020/2021, whilst protecting its much valued services. The next MTFS is due to be presented to Members in September 2016. The Council has commenced several initiatives that aim to help us to reduce our costs and meet the enormous challenge of a significant funding gap. These include the T18 Transformation Programme. The programme has delivered new and very different ways of working (see above);	Other initiatives in progress include: • Strategic Asset Review; and • Income generation initiatives • Local Authority Controlled Company (LACC) - On 25/2/16 (Minute CM63) Council agreed that a detailed business case and implementation plan be produced to enable further consideration of the merits of establishing a Local Authority Controlled Company jointly with West Devon Borough Council to deliver services for South Hams District Council and West Devon Borough Council, and to other organisations as contracts are won	Senior Leadership Team S151 Officer On-Going Report to Council at the end of July 2016 for a decision on the LACC
Issue Identified	**Action to be Taken**	**Responsible Officer and Target Date**

Business Rates Appeals Provision The way that Councils receive income from Business Rates changed from 1 April 2013. Business Rates retention was introduced to enable authorities to be able to retain a share of any growth that is generated in Business Rates revenue in their areas. The business rate retention scheme allows authorities to voluntarily form a business rates retention pool. The membership of the Devon Pool consisted of all Devon District Councils, Devon County Council, Torbay Unitary and Plymouth Unitary. The Valuation Office provided a list of outstanding appeals for the Council, and these have been taken account of when completing the government return NNDR3 for 2015/16 (section relating to business rates appeals provision). There is uncertainty and risk surrounding the calculation of the business rates appeals provision as future events may affect the amount required to settle an obligation. The Council has taken external specialist advice on the accounting for its appeals provision for 2015/16 and has also engaged the Council's external auditors (KPMG) in early discussion on the subject.	The Council took a decision to withdraw from the Devonwide Business Rates Pool for 2015/16, due to the risk of some large Business Rates appeals. If the Council had remained in the Pool, the Council would not receive a safety net payment from the Government if its business rates income fell by more than 7.5%. This financial burden would have fallen on all of the Devon Councils and this financial risk was deemed too high. The Council has submitted its NNDR3 return for 2015/16 and this includes a significant increase in the appeals provision of £26.7 million. The Council's share of this is 40% (£10.68 million). This has meant that the Council is eligible for a safety net payment from DCLG of £9.86 million in 15/16. The Council will further liaise with KPMG during the audit of the Accounts in July 2016	Already actioned. The NNDR3 return for 2015/16 was submitted at the end of May 2016. The Council's preceptors were informed of the level of the appeals provision and the reasons for this. S151 Officer Already actioned May 2016 S151 Officer July 2016

Issue Identified	Action to be Taken	Responsible Officer & Target Date
Heart of the South West Devolution Bid On 11/2/2016 (Minute CM 57) Members considered a report on the Devolution Bid that sought to endorse the current approach to devolution and the drafting of proposals, their submission and negotiation of a deal for the Heart of the South West. Devolution for the Heart of the South West (HotSW) is being led by the Leaders of Somerset and Devon County Councils, all Somerset and Devon Districts, Torbay Council, Plymouth City Council, Dartmoor and Exmoor National Parks, three Clinical Commissioning Groups and the Local Enterprise Partnership. The partnership submitted their Prospectus for Productivity to Government in February 2016. The three goals are around: **People**: who are healthy, with the skills they need to access higher value jobs and grow their careers. **Business:** more businesses creating new jobs and increasing productivity. **Place:** sustainable growth across the geography, supported by modern infrastructure and accelerated housing delivery.	The Partnership is undertaking a full governance review which will report back in July 2016. A report will be presented to Members at the July 2016 Council meeting to recommend agreeing to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area.	Executive Director (Strategy & Commissioning) July 2016

Issue Identified	Action to be Taken	Responsible Officer and Target Date
Internal and External Audit Reports Some issues have been identified in audit reports by the Council's external auditor, (Grant Thornton for 2014-15 and KPMG for 2015-16), and the shared in-house internal audit team. Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.	All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.	Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Cllr R Tucker
Leader of South Hams District Council

Signed:

Steve Jorden
Executive Director (Strategy and Commissioning) and Head of Paid Service, on behalf of South Hams District Council

Date: **22nd September 2016**

Report to:	**Audit Committee**		
Date:	**22 September 2016**		
Title:	**STRATEGIC RISK ASSESSMENT – REGULAR UPDATE**		
Portfolio Area:	**Strategy & Commissioning** **Cllr Michael Hicks**		
Wards Affected:	**All**		
Relevant Scrutiny Committee:	**N/A**		
Urgent Decision:	**N**	Approval and clearance obtained:	**Y**
Date next steps can be taken:			**n/a**

Author:	**Darren Arulvasagam**	Role:	**Business Development Group Manager**
Contact:	**Darren.Arulvasagam@swdevon.gov.uk** **01803 861222**		

RECOMMENDATIONS

That the Committee review the strategic risks and make recommendations to Council on any further action the Committee concludes should be considered.

1. Executive summary

1.1. In accordance with the Joint Risk Management Policy adopted by South Hams District Council on 10th May 2012, this report forms the required 6 monthly update to Members.

1.2. The report includes the current corporate strategic risk assessment and a summary of the management and mitigating actions to address the identified risks.

1.3. Zurich Municipal's Strategic Risk Practice was commissioned by South Hams District and West Devon Borough Council to complete a Risk Identification Exercise to check and challenge the key risks associated with the Council's proposed Local Authority Controlled Company (LACC). Risks were profiled and owners assigned and the result of this work is shown in Appendix 3 and Appendix 4 shows a profile summary of the risks identified by Zurich Municipal.

2. Background

2.1. The Council at its meeting on 10 May 2012 resolved to adopt the Joint Risk Management Policy.

2.2. The Joint Risk Management Policy requires the Senior Leadership Team (SLT) to undertake reviews of the Corporate Risk Tables on a monthly 'light touch' basis and more comprehensively on a quarterly basis.

2.3. It also stipulates that a member of the Senior Leadership Team will provide update reports to the Audit Committee on a six monthly basis. This is now the responsibility of the Business Development Group Manager.

3. Outcomes / Outputs

3.1. The risks currently monitored by SLT are set out in Appendix 1.

3.2. The tables include a summary of mitigating and management actions undertaken or proposed, to manage the identified risks. Monitoring requires both a proactive approach to assessing potential risk, as well as carrying out retrospective reviews to improve learning from risk and embedding it across the two Councils.

3.3. Appended to the risk tables as Appendix 2 is the Risk Scoring Matrix which has been used to identify risk status. A risk rating is developed by assessing risk impact/severity and multiplying it by the likelihood / probability of the risk occurring. The risk score identified is the assessment based on the mitigation being successful.

3.4. Also appended to this report is the result of Zurich Municipal's Risk Identification Exercise, which set out to check and challenge the key risks associated with the Council's proposed Local Authority Controlled Company (LACC). The Zurich exercise comprised a documentation review of the business case, consideration of the Council's risk register information and interviews with key officers. The risks were logged and risk owners assigned and the result of this work is shown in Appendix 3. Appendix 4 shows a profile summary of the risks identified.

4. Options available and consideration of risk

4.1. The tables are living documents and will regularly change in response to issues arising.

4.2. Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.

5. Proposed Way Forward

5.1. It is suggested that the Committee's attention is focussed on those risks with the highest score i.e. the risks with a score above 12.

While members are invited to focus on the key risks, members are welcome to review any of the risks identified, including questioning whether the risk is appropriately scored, or whether further detail around the risk or the proposed mitigating actions is required.

6. Implications

Implications	Relevant to proposals	Details and proposed measures to address
Legal / Governance	Y	The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management. There are no direct legal implications arising from the report although a strategic focus on risk management is good practice. Any specific legal implications are considered in individual risk assessments.
Financial	Y	There are no direct financial implications arising from the report, although effective corporate risk management may help protect the Council from budget variances.
Risk	Y	Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
Safeguarding	N	Factored into individual risk assessments where appropriate.
Community Safety, Crime and Disorder	N	Factored into individual risk assessments where appropriate.
Health, Safety and Wellbeing	N	Factored into individual risk assessments where appropriate.
Other implications	N	N/A

<u>Supporting Information</u>

Appendices:

Appendix 1: Corporate Risk Report
Appendix 2: Risk Scoring Matrix
Appendix 3: LACC Risk Register *(as identified by Zurich Municipal & subsequently updated by the LACC Joint Steering Group and the SHWD Senior Leadership Team)*
Appendix 4: LACC Risk Profile *(as originally identified by Zurich Municipal)*

Background Papers:

- Joint Risk Management Policy
- Covalent risk register
- South Hams District and West Devon Borough Council Local Authority Controlled Company Risk Diagnostic Report, July 2016

#	Owner	Risk Description									After Treatment			Action / Update
		Strategic Priority	**Title**	**Detail**	**(What is/are the) Uncertainties;**	Likelihood	Impact	Current Risk Rating: 1 - 25 *(multiply L vs I)*	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	**Mitigating Action/Internal Control**	Likelihood	Impact	Target Risk Score: 1 – 25 (multiply L vs I)	
1	SH	Provision of quality services	Service Performance	Any service failure or degradation of service impacts on the customer, which then impacts on all areas of the council and members	Lack of appropriate resources due to current interim vacancies; ongoing transformation programme specifically IT and process implementation is not yet complete. These two combined have affected our ability to deliver appropriately on occasion.	5	5	25	Mitigate	Getting it right the first time, getting back to people appropriately and more timely. Better channel recognition to clear responses. Keep better records. Appropriate resources in the right places.	3	5	15	Mobile solution is in test, whitespace (in cab) technology will shortly be integrated into W2 workflow processes, but is already bringing benefits. Concerto software for assets is underway.
2	SJ	Encouraging communities to thrive	Delivery of local plan (inc. 5 Year Land Supply in South Hams)	Risk of speculative development without a 5 year land supply in South Hams, following Riverside ruling. Risk of designation in relation to Development Management & local plan across both councils.	Lack of detail / contingency around 5 year land supply until the joint local plan is completed.	5	4	20	Mitigate	Work underway to agree joint strategic working plan between Plymouth, South Hams and West Devon to ensure land supply across the three areas is sufficient. Collaboration agreement signed.	2	2	4	Consultation process ended Aug 2016. Analysis underway. In WDBC, Butcher Park planning decision highlights risk.
3	SH	Provision of quality services	Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occuring, e.g. Failure to ensure the continuous availability of critical IT systems	Following the event, how quickly will certain systems and processes be able to be back on-line	4	4	16	Mitigate	Having two HQ locations is main mitigating factor. Agile working further reduces reliance on two office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated - priority areas - ICT Networking	2	2	4	Annual work programme to address critical areas. A Business Continuity Plan & overall strategy refresh for ICT, including investigation of cloud based services which improves business continuity/resilience. On-going review of the Business
4	SH	Provision of quality services	SH Waste Round Review	Risk of reputational issue to the Council if the project fails to run to project timeframe and deliverables. Risk to identified efficiency savings if project not run on time. Failure to manage customer enquiry and feedback in a timely manner could also affect reputation.	Amount of customer contact. External factors.	4	4	16	Mitigate	Project group are meeting weekly and the operational plan is supported by a communications plan. Additional staff are included in the customer contact/case management plan.	2	2	4	Part one of round review completed and no adverse issues.
5	SH	Financial Sustainability	T18 Benefits Not Delivered	Failure to deliver sustained benefits from the T18 Programme; Risk of new systems not being fit for purpose during transfer and then for BAU; Capacity risk once additional resources exhausted?	Poorly executed delivery could affect quality of customer service; timescales to complete routine tasks and an increase in complaints. Staff moral and reputation can be affected.	4	4	16	Mitigate	Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Quarterly monitoring reports to Members.	2	3	6	Continued management focus on programme delivery. Considerable engagement with Civica, some compensatory payments for back filing and resourcing from Civica. SLT looking at alternatives, should they be required. Budget has been monitored very closely. Transition resources being recruited to ease pressure, staff re-allocated to look at
6	SH	Provision of quality services	WD Waste Procurement	Managed service solution agreement may not be in place in time.	Future cost of service may increase in both capital and revenue terms in view of aging assets during extension period. Service received during transition / notice period may deteriorate.	4	4	16	Mitigate	Detailed procurement process including specification writing which is well advanced. Wide review team of officers/members in place. Budget will be set and highlighted as part of the service review process	2	3	6	Discussions concerning relevant service requirement & implementation underway in consultation with legal team.
7	SJ	Provision of quality services	Data Protection	Failure to control the appropriate use of data and unauthorised Access.	To manage the risk of non compliance with Cabinet Office PSN CoCo, PCI DSS, Data Protection Act, RIPA, Human Rights Act.	3	5	15	Mitigate	Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices. Look out for advice from the	2	3	6	eLearning tool being rolled out as part of new performance management system during 16/17. Virtual COP being instigated to ensure adherence to regulations

#	Owner	Risk Description									After Treatment			Action / Update
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8	SH	Provision of quality services	Emergency Response, e.g. Coastal Erosion / Storm Damage / Flooding	There is high public expectation in relation to supporting communities during coastal erosion/storm damage/flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	5	3	15	Mitigate	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity	3	3	9	Processes have stood up to recent storm damage; communication continues with relevant parties
9	SJ	Provision of quality services	Contractor Failure	Failure to manage a major failure of a significant council contractor including, any significant related industrial relations issues.	Contingency plans if contractor were to fail; affect on service delivery	3	4	12	Tolerate	Good contract and people management, effective Contract Team, use of shared procurement expertise, more frequent credit checks (including parent companies), requirement for bonds where appropriate.	2	2	4	Unproven contractor won leisure procurement - this is to be mitigated via contract process & PQQ process. Contract monitoring is acknowledged as an area which needs strengthening across the Council.
10	SJ	Financial Sustainability	External Fraud	Fraud, financial impropriety or improper business practises anywhere against the organisation	Fraud could occur anywhere against the organisation; but the likely impact is limited due to existing management controls	4	3	12	Mitigate	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	3	2	6	
11	SH	Financial Sustainability	Implementation of LACC	Capacity impact on staff and BAU delivery; timescale of delivery may slip; Due diligence before LACC set-up may not be complete; Business case may not evidence a discernible market for the proposed company	See separate LACC Risk Register	3	4	12	Mitigate	See separate LACC Risk Register	2	3	6	Joint Steering Group set up to resolve issues & concerns raised by Members and outstanding points from business case work produced by PwC.
12	SJ	Financial Sustainability	Internal Fraud	Fraud, financial impropriety or improper business practises anywhere in organisation	Fraud could occur anywhere throughout the organisation; but the likely impact is limited due to existing management controls	4	3	12	Mitigate	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	3	2	6	
13	SJ	Provision of quality services	Adherence to Council policies & processes and Government guidelines	Failure to manage/enforce s106 conditions. Ombudsman complaints could lead to finding of maladministration due to management of issues, e.g. poor record keeping; time to resolve issues or meet imposed timelines; reputational damage. Failure to meet current and changing needs	T18 programme rollout has seen service levels reduce and customer perception affected for certain services	3	4	12	Mitigate	Plan to commence measuring customer satisfaction during 16/17. Increased customer engagement; new complaints policy in place.	2	3	6	Embed new process within organisation; additional resources approved to ensure less impact on front line services. Internal audit programme for next year will help provide assurance.
14	SH	Financial Sustainability	Inadequate asset maintenance	Failure to maintain all Council owned assets and buildings (including fleet).	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard, To consider and manage the risk of redundant properties / assets.	2	5	10	Mitigate	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme. Risk assessments and regular health and safety inspections.	1	5	5	Work underway (as part of governance) to review and write a long-term maintenance plan. This will assist with the risk in respect of the maintenance of all Council assets.
15	SH	Provision of quality services	Potential for late filing of accounts	There is a requirement that closedown of 16/17 accounts be brought forward 4 weeks to end of May 2017. The risk is that resourcing within the finance COP and delayed process improvement prevents closedown by the government deadline. Impact would be that the council's accounts would be "qualified"	Whether the new timetable is achievable for the existing team.	3	3	9	Mitigate	Additional resourcing will be made available when required, structure changes already implemented. 2015/16 year end worked to restricted timetable as a trial run.	2	3	6	Team worked to reduced timetable for 2015/16 closure and additional resource (deputy s151 officer recruited)

#	Owner	Risk Description									After Treatment			Action / Update
		Strategic Priority	**Title**	**Detail**	**(What is/are the) Uncertainties;**	Likelihood	Impact	Current Risk Rating: 1 - 25 *(multiply L vs I)*	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	**Mitigating Action/Internal Control**	Likelihood	Impact	Target Risk Score: 1 – 25 (multiply L vs I)	
16	SJ	Provision of quality services	Corporate Governance	Failure to maintain effective Corporate Governance arrangements.	To maintain effective Member standards and develop new Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act	2	4	8	Mitigate	Promotion of necessary policies via staff intranet. Reviewed and implemented new Council constitution. To provide necessary Annual governance self assessment review by both ELT and SLT. Audit	1	3	3	n/a
17	SJ	Provision of quality services	Health & Safety	Failure to manage the health, safety and welfare of the public, visitors and staff. Key consideration in relation to number of external frontline staff, including lone workers.	High impact on service delivery resulting in resources / services being unavailable for long periods	2	4	8	Mitigate	Safe working environment, policies and procedures, e.g. fire safety policy, travel at work policy. IIP, PDRs. Revised sickness absence policy, health and other wellbeing initiatives. Awareness of appropriate legislation e.g. Corporate Manslaughter Act, Equalities Act. Up-to-date corporate Health & Safety Policy/procedures	1	3	3	Virtual COP being set up to ensure visibility and focus on this topic; regular reporting to SLT and proposed changes to member performance data to include H&S measures. Work underway to consider ISO accreditation & impact on services

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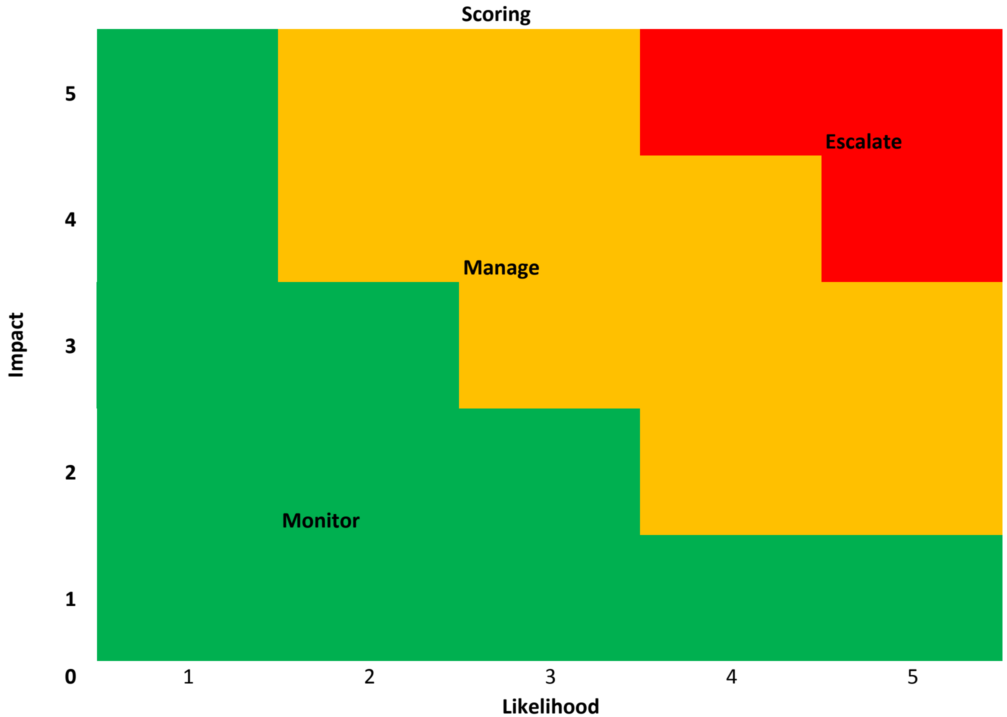
Appendix 2 - Risk Scoring Matrix

Likelihood	Impact
1- Unlikely to occur under normal circumstances	1 - Very low impact to delivery
2- Potenial to occur however likelihood remain low	2 - Minor impact to service delivery with potential for some financial / reputational implications
3- Likely to occur	3 - Impact on service delivery and financial / or reputational implications
4- Most likely to occur	4 - High impact on service delivery resulting in services / resources being unavailable for a long period
5 - Almost certainly will occur	5 - Severe impact on service delivery resulting in closure of some services / ceasing of project and / or significant financial and/or reputational implications



Green - These risks have low impact and/or low likelihood of occuring. Have a plan to prevent them escalating but only light touch monitoring required

Amber - These risks need to be managed to prevent them causing an impact on the business or project. Clear plans with owners need to be in place and they should be managed by the project team or service leads on a regular basis

Red - These risks can have a significant impact on the business or project and must be managed by the project board or service management team. Mitigations must be in place and managed to ensure that the risk is not realised or can be controlled

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Appendix 3: LACC Risk Register

						Rating at point logged					
#	**ID**	**Risk Description**	**Triggers**	**Consequences**	**Risk Owner**	**Likelihood**	**Impact**	**Risk Rating**	**Treatment**	**Mitigations**	**Update**
1	12	The risk is that Pension Liabilities are not handled correctly leading to financial pressures on the LACC or the Councils	- Unfavourable accounting regulations requiring bond of guarantee - pension liabilities to be met by Councils	- LACC project becomes unviable due to not achieving admitted body status - Other delivery models will need to be considered - LACC accounts would record a significant loss each year (insolvent / not a going concern)	Sophie Hosking	3	5	15	Mitigate	- To be established during implementation and be set out as a clear gateway in the project plan. Other LA's set up LACC's and Admitted Body Status typically achieved but will be assessed by JSG	Work is happening on this at the moment - with s151 officer meeting Peninsular Pensions. Also Bevan Brittan LLP instructed to provide legal advice
2	1	The risk is that there is Ineffective and/or inefficient set up of the LACC	- Lack of expertise in technical areas such as VAT and Corporation Tax - Insufficient management capacity to complete project tasks and actions - Conflicting priorities for SLT e.g. Service performance v LACC implementation - Awareness of regulation and legislative requirements	- Financial Model becomes unviable - Benefits are not maximised - LACC Cessation - Cash Flow issues - Lack of control of the LACC / ineffective governance - Monitoring and internal controls become complicated - Increased and unexpected set up costs	Sophie Hosking	3	4	12	Mitigate	- Arrange specific advice for areas where further input required (Corporation Tax / Pensions / Financial modelling) as part of implementation project team - Advice already sought from PWC on some issues as part of detailed business case development - Active management of risk register for LACC throughout the project and into the operate phase - Clear gateways for the Joint Steering Group to make decisions on proceeding or not – part of project planning - Develop Business Plan	Mitigation down - JSG programme team. BB instructed
3	7	There is a risk to service resilience when services are delivered by the LACC	- Impact on service delivery for the Council and 3rd parties - Unable to fulfil contract requirements - Financial liabilities - Reputation damage - Community needs not met	External factors beyond Council and company control - Effective management of company - Effective contract specification, management and monitoring through out supply chain - Excessive pressure on service demands - Unexpected demand on finances e.g. unpaid debt, cash flow, disputes and claims	Sophie Hosking	3	4	12	Mitigate	- Emergency change process to be developed and captured in Contract - Client side contract manager to be empowered to make speedy decisions (within councils delegated authority levels) - Building of company reserves - Performance Management framework for LACC to be developed to identify any downward trends in service delivery at an early stage	Likelihood & Impact score amended from original work as no longer aiming for April implementation
4	9	There is a risk that the LACC fails to achieve desired rates of growth and be competitive in the market place	- Lack of expertise and acumen - Failure to recruit the right executive team - New entrants to the market offer more competitive rates (i.e. other LACCs) - Uncompetitive due to cost of its workforce in comparison to competitor - Market does not materialise or mature	- Loss of market share / customers - Unable to attract future partners / private customers - LACC model may become unsustainable in the longer term - Reputation for being expensive, if so, must maintain high standards - Alternate service delivery model required	Sophie Hosking	4	3	12	Mitigate	- Strong project management and governance throughout implementation phase (with assistance of JSG) - Ensure management team reflect LACC's behaviour & skill requirements to effectively deliver contract Continuous market research & analysis – map competitor wins / actions. - Use customer and market segmentation to understand where LACC fits in. - Account manage customers to ensure service delivered exceeds expectations - Early establishment of marketing strategy and focus on quality, effective & efficient public sector service - Continuously seek efficiency improvements and income generation activities	Likelihood & Impact score amended from original work as no longer aiming for April implementation

Note: ID relates to risk as illustrated in Appendix 4

						Rating at point logged					
#	ID	Risk Description	Triggers	Consequences	Risk Owner	Likelihood	Impact	Risk Rating	Treatment	Mitigations	Update
5	10	The risk is that the LACC fails to retain and recruit competent and capable people to deliver the LACC vision	- Disillusioned workforce / lack of engagement - Ability to recruit the right executive team / board members - Inequalities across the workforce through inconsistent Terms and Conditions - Difficulties / times delay with recruitment	- Management team and workforce that lack a commercial outlook / acumen - Increased workloads - Reduction in staff morale -Failure to achieve commercial goals - Negative impact on service quality	Sophie Hosking	3	4	12	Mitigate	- Develop LACC recruitment strategy including profiles of roles that may require ongoing access of LGPS to attract staff - Clear communication with staff	n/a
6	2	The risk is that the LACC does not maximise its financial viability	- Initial assumptions and predictions are inaccurate including those of set up and running costs - Market place not fully understood - Competitors not identified - Waste Management Contract not brought into LACC - Service offering is not competitive - Unsuccessful in winning council contracts - Growth / savings are not achieved - Modelling of profit margins is over estimated - Irrecoverable VAT - Continued Local Authority cuts	- Costs of company set up not recovered - LACC dissolved and services taken back into the Local Authorities with associated costs - Ability to deliver council services for other Local Authorities reduced - Savings and profit not achieved - Economies of scale impacted if service reduction required - reputational damage stakeholder dissatisfaction	Lisa Buckle	3	3	9	Mitigate	- Officer group to develop further market analysis work – ongoing - Mapping of market competitors and ongoing monitoring of potential trading pipeline from early stage – early engagement with soft market assessment activities which can commence 12 /18 months prior to a tendering opportunity becoming available - Continue discussions with FCC over current waste arrangements to ensure smooth transition - Ongoing modelling of irrecoverable VAT – to be built into project plan as key gateway for Joint Steering Group to agree - Commence discussion with HMRC once approval to proceed is granted re Corporation Tax exemption - Base budget review and full financial profiling of roles.	n/a
7	5	Ability to maximise the benefits of the LACC	- Lack of flexibility to deliver potential future savings required due to further - Start up costs become unaffordable in the uncertain local authority financial climate - Potential lack of commercial skill set - Strategic business case is not effectively communicated to or understood by members including acceptance and awareness of ownership and profit share allocation - Market fails to materialise and mature	- Council stays as is and T18 programme is refined to deliver further savings - Income cannot be generated to offset future government grant cuts - Reputational damage - Further cuts to services, required to meet budget reductions - Alternate service delivery models required - LACCs / other delivery models are established prior to set up	Steve Jorden	3	3	9	Mitigate	- Contract will require a change process for change requests from LACC to the Councils and vice versa - managed by client contract management - Start up budget to be defined and agreed with Joint Steering Group within parameters set out to Members for far - Commercial skills pre-requisite for board members - Business and marketing plan to be developed	JSG work ongoing which will investigate commercial viability
8	3	The risk is that the Councils are not able to meet LACC project implementation timescales	- Availability of staff to participate and support the delivery of the project work streams - Management Capacity - Availability of project management skills - Deadline for project not realistic - Delay in decision by members	- Increased costs - Reputational damage - Failure to meet stakeholder expectations - Delays in realising benefits of becoming an LACC (savings / payback period) - Continued staff uncertainty - Loss of member confidence	Neil Hawke	2	4	8	Mitigate	- Clearly defined project work streams and project governance - Consider phased approach for the implementation / transition to live - Sufficiently resourced project team - Formal risk management and project change process	Implementation timescales are to be confirmed as a result of joint steering group (JSG) ongoing work

Note: ID relates to risk as illustrated in Appendix 4

						Rating at point logged					
#	ID	Risk Description	Triggers	Consequences	Risk Owner	Likelihood	Impact	Risk Rating	Treatment	Mitigations	Update
9	11	The risk is that there is no defined and clear exit strategy for the Councils	- Contractual disputes - Failure to include appropriate break clauses in contracts and Service Level Agreements - LACC model becomes financially unviable due to changes in demand and complexity of user needs - Change of political will and direction	- Service disruption / instability - workforce unrest - impact upon service quality / performance e.g. delays - potential for LACC restructure - Perception by stakeholders of LACC failure and therefore SHDC & WDBC failure	Steve Jorden	2	3	6	Mitigate	- Exit strategy to be drafted as part of initial contract drafting, updated (where changes) and submitted on annual basis to councils - Break clauses to be agreed by JSG – recommend first break in 5 years to ensure LACC has suitable opportunity to gain trading history - Contract change procedure to be developed during implementation - Active risk management by Councils and LACC	Will be considered by the JSG
10	8	There is a risk that the LACC may breach statutory rules and obligations / regulations	- Lack of understanding around what the LACC can and can't do and how it should do it - Employment disputes / TUPE challenges due to incorrect procedures being followed - Failure to conform with TUPE and other proposal consultation requirements - Inequalities within workforce (e.g. Equal Pay Claims) - Failure to adhere to EU procurements rules	- Possibility of trading ultra vires - Reduction in quality of services - Delay in implementation / cessation of LACC - Financial costs - Legal action - Reputational damage	Steve Jorden	1	5	5	Mitigate	- Director responsibilities clear with in depth knowledge of contract - Specialist advice bought in as part of implementation with clearly mapped procedures for the LACC	Bevan Brittan LLP instructed to provide specialist legal advice
11	4	There is a risk of negative or incorrect stakeholder perception of LACC	- Lack of understanding of LACC objectives and purpose i.e. protecting public services - Councils' rationale is not understood or appreciated by the community - Inability to articulate the LACC's unique selling point - Lack of buy in by staff, unions and other stakeholders	- Loss of identity of the Council by the public - Reputation adversely affected - Loss of community engagement - Loss of attractiveness as an employer - Increase number of change initiatives, impacting upon service delivery - Impacted staff morale	Steve Jorden	2	2	4	Mitigate	- Development of communications plan for project and LACC (staff briefings, internet page, newsletters and union engagement) - Joint Steering Group to become "champions" for the LACC ensuring key messages understood - Early discussions with other leaders of and Senior Management Teams of other councils as part of business planning process	JSG work ongoing
12	6	There is a risk that the LACC does not effectively utilise the Teckal Exemption	- Ineffective and incorrect set up of company structure and governance - ability to demonstrate control over the LACC equal to that over the Councils departments - Exceeding 20% of services delivered to other parties through trading and therefore failing to meet the requirement for the majority of work of a TECKAL company being delivered to its controlling contracting authorities	-Financial penalties resulting from challenge from other businesses in the market - Lack of control over company functions	Sophie Hosking	1	3	3	Mitigate	- Strong project management and governance throughout implementation phase (with assistance of the JSG) - Careful contract construct and reserved matter decision points to enable flexibility -Mapping of market competitors -Active management of sales funnel / pipeline for LACC throughout the project and into the operate phase – CRM tools to be employed -Monitoring of contract values against third party business won -Consider utilisation of a s95 company or Servaco if thresholds likely to be breached -Invite potential customers to become shareholders as opposed to customers to increase threshold limits -Early establishment of marketing strategy and focus on quality, effective & efficient public sector service	Bevan Brittan LLP instructed to provide specialist legal advice, which will continue to see this risk rated as low

Note: ID relates to risk as illustrated in Appendix 4

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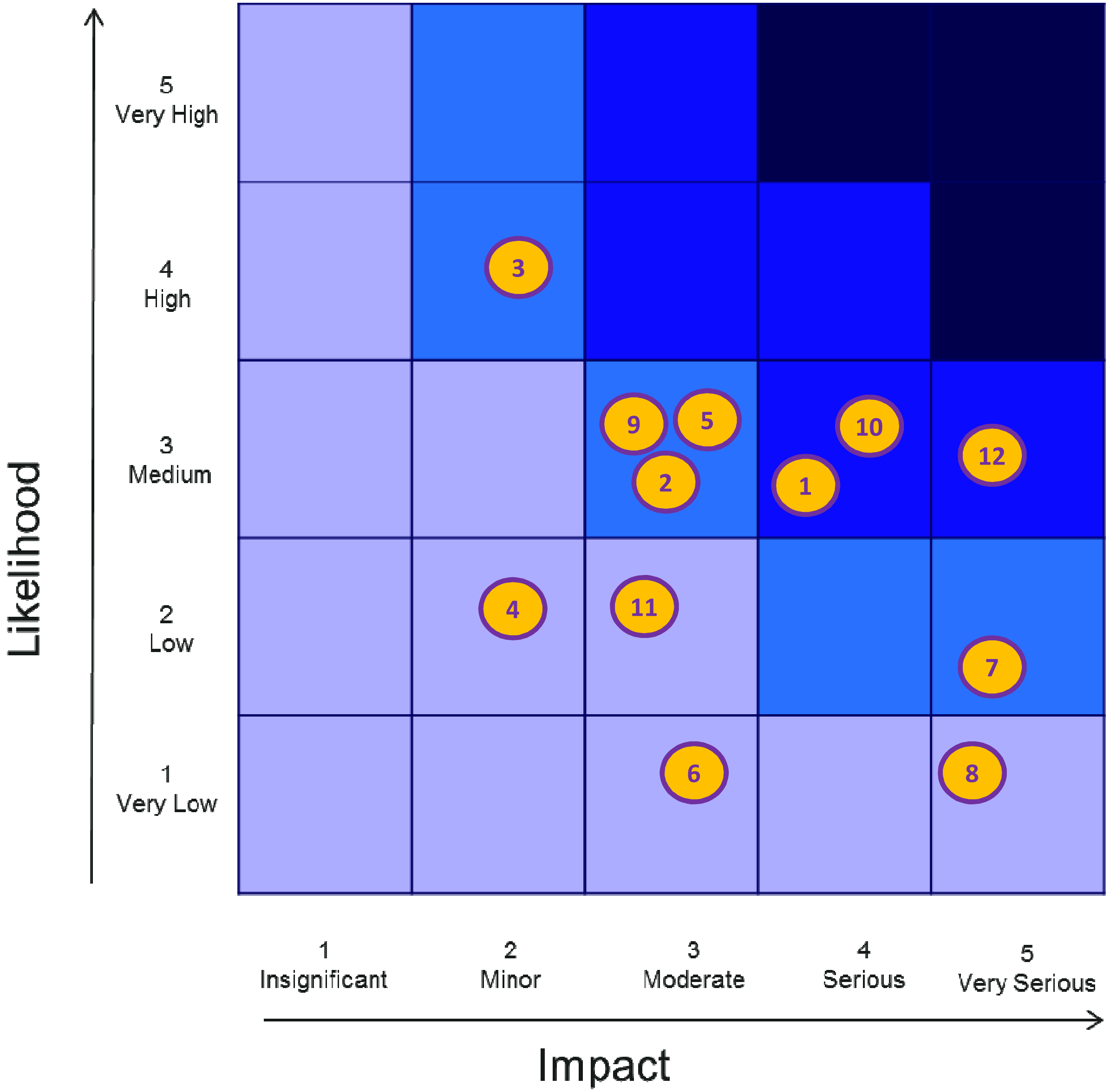
Appendix 4: LACC Risk Profile

1. Effective and efficient set up of the LACC
2. LACC financial viability (Proof of concept)
3. Ability to meet LACC project implementation timescales
4. Stakeholder perception of LACC
5. Ability to maximise the benefits of the LACC
6. Effective utilisation of the Teckal exemption
7. Service Resilience
8. Breach of statutory rules and obligations / regulations
9. Ability to achieve desired rates of growth and be competitive in the market place
10. Retain and recruit competent and capable people to deliver the LACC vision
11. Defined and Clear Exit Strategy
12. Pension Liability



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Report to:	**Audit Committee**
Date:	**22 September 2016**
Title:	**UPDATE ON PROGRESS ON THE 2016-17 INTERNAL AUDIT PLAN**
Portfolio Area:	**Support Services – Cllr S Wright**
Wards Affected:	**All**

Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Author:	**Brenda Davis**	Role:	**Audit Manager**
	Robert Hutchins		**Head of Partnership**
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	Robert.hutchins@swdevon.gov.uk		**01392 383000**

RECOMMENDATION

It is RECOMMENDED that the progress made against the 2016/17 internal audit plan, and any key issues arising are noted.

1. Executive summary

1) The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2016/17 to the 25 August 2016, by:

- Showing the progress made by Internal Audit against the 2016/17 annual internal audit plan, as approved by this Committee in March 2016; and
- Highlighting revisions to the 2016/17 internal audit plan.

2. Background

The Audit Committee, under its Terms of Reference contained in South Hams Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2016/17 was presented to and approved by the Audit Committee in March 2016. Progress in the period up to 25 August 2016 has included completion of work carried forward from 2015/16 but progress against the 2016/17 has plan has been limited due to sickness absence totalling 28 days (apportioned SHDC 22 days, WDBC 6 days) in the year to date.

In addition, the Council, in association with several partner organisations receive funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m to the Greater Dartmoor Local Enterprise Action Fund (LEAF). The Council as the Accountable Body is responsible for the legal and financial management of the grants awarded to the programmes. Each project is required to submit a grant claim on a quarterly or monthly frequency to draw down funding. It is estimated that 60 days will be needed in 2016/17 to audit the claims with 17 days have been spent to date on this work. The Council is able claim funding against officer time spent on administering the LAG and the LEAF and this will be used to provide some backfill as this work is not resourced within the 2016/17 audit plan.

In response to the reduction in available days the audit plan has been reviewed and adjusted in consultation with the Finance Community of Practice Lead (S151 Officer) and agreed by the Senior Leadership Team. The proposed changes are detailed in the table below.

Audit	Plan Days 2016/17	Plan Days Update	Comment
VAT	10	0	VAT specialist to be engaged to look at VAT treatment for capital / grant programmes.
Capital Receipts	5	0	No receipts from sale of assets in year to date, Right to Buy Clawback reviewed in 2014/15 (good standard) and capital expenditure through Disabled Facilities Grant is

			subject to a separate review.
Elections	8	3	Focus will be on election payroll and will be incorporated into the main payroll system review.
Member Allowances	4	0	Defer to 2017/18
Total	**27**	**3**	**Net Reduction of 24 days**

3. Outcomes/outputs

In carrying out systems and other reviews, Internal Audit assess whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates to any address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

Overall, and based on work performed to date during 2016/17, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The 2016/17 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

Appendix B provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

Non Compliance with Contract or Financial Procedure Rules - there are no significant issues to bring to the attention of the Committee so far this year. Five applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

Fraud Prevention and Detection and the National Fraud Initiative
Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (The National Fraud Initiative - NFI) every two years. For the 2016/17 exercise data has to be submitted from a range of Council systems including Creditors, Payroll, Housing Benefits and Insurance week commencing 3 October. The datasets are required to be uploaded to the NFI secure website from 10 October with subsequent matching reports expected back from the NFI Team at the end of January 2017.

The NFI requires Council Tax and Electoral Register data to be submitted annually for the council tax single person discount matching. The deadline for submission of these data sets is not until 28 February 2017 as the next electoral registers for England are not due to be published until 1 December 2016.

Irregularities
There are no irregularities to report.

4. Options available and consideration of risk
No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

5. Proposed Way Forward
We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit. The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

There are no separate appendices to this report.

Background Papers:

Annual Internal Audit Plan 2016/17 as approved by the Audit Committee on 24 March 2016.

Appendix A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final		Opinion				Comments
							High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
MAS & Budgetary Control	8										
Creditor Payments	10	■									
Payroll	12										Review will also include additional 3 days for election payroll.
Council Tax	10										
Business Rates (NNDR)	10										
Benefits Payments	5										
Treasury Management	5										
Main Financial Systems	**60**										
VAT	***0***										***Removed from plan, previously 10 days external VAT Specialist to be engaged.***
Shared Services - recharging	5										
Member Allowances	***0***										***Deferred to 2017/18, previously 4 days***
Stores (stock control & security)	6	■	■						■		
Capital Receipts	***0***										***Removed from plan, previously 5 days***
ICT Audit	26										
Performance Management - PIs & Data Quality	10										

Appendix A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final		Opinion				Comments
							High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Annual Governance Statement	2	-	-	-	-		-	-	-	-	Review of the Code of Corporate Governance presented to June 2016 Audit Committee under separate cover
Risk Management	15										
T18 Project	11										
Partnerships & Partnership Management	10										
Culture & Ethics	8	■									
Contract Management	8										
Elections	***3***										***Reduced by 5 days, previously 8 days***
Counter Fraud Work	10	■									
Exemptions from Financial Regulations	3	■									
Community Parks & Open Spaces	6	■	■						■		
Culture & Heritage	5										
Leisure Centre Client	6										
Health & Safety	8	■									
Pollution Control	5	■	■					■			
Street & Beach Cleaning	6										
Dartmouth Lower Ferry	7										
Street Scene - Car & Boat Parking	8										
Salcombe Harbour	7										

Appendix A

Projects agreed in the Audit Plan	**Planned Number of Days**	**Fieldwork started**	**Issued in draft**	**Management comments received**	**Final**		**Opinion**				**Comments**
							High Standard	**Good Standard**	**Improvements Required**	**Fundamental Weaknesses**	
Housing Standards – disabled facilities grants & loans	15	■	■						■		
Development Control – enforcement	8										
Development Controls – planning applications	8										
Planning Policy –Section 106 Agreements	7										
Grants –Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	0	■									17 days spent on claims to date. Estimate further43 days required – totalling 60 days in all.
Follow Up of Previous Year's Audits	10	■	-	-	-		-	-	-	-	
Contingency (Unplanned) & Advice	20	-	-	-	-		-	-	-	-	
Audit Management, including • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit	18	-	-	-	-		-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 30 June 2016.
Other Systems & Audit Work)	**261**										
Total Revised Days	**321**										**Previously 345 days**

Planned Audit 2016/17 – Final Reports

As at the 25 August 2016, no final reports have been issued in respect of 2016/17. Reports finalised in the current year in respect of the 2015/16 audit plan were reported to the Audit Committee at the end of June.

Definitions of Audit Assurance Opinion Levels

High Standard
The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

Good Standard
The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

Improvements Required
In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.

Fundamental Weaknesses Identified
The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Planned Audit 2016/17 – Work Complete (No Audit Report)

Subject	Comments
System of Internal Control (SIC), and Annual Governance Statement (AGS)	Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control. In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2015/16 financial year. The S151 Officer presented the 2015/16 AGS to the Audit Committee on 30 June 2016.
Exemptions to Financial Procedure Rules	Five applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

Report to:	**Audit Committee**
Date:	**22 September 2016**
Title:	**INTERNAL AUDIT CHARTER AND STRATEGY 2016/17**
Portfolio Area:	**Support Services – Cllr S Wright**
Wards Affected:	**All**

Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Author:	**Brenda Davis**	Role:	**Audit Manager**
	Robert Hutchins		**Head of Partnership**
Contact:	[**Brenda.davis@swdevon.gov.uk**](mailto:Brenda.davis@swdevon.gov.uk)	**01803 861375**	
	[**Robert.hutchins@swdevon.gov.uk**](mailto:Robert.hutchins@swdevon.gov.uk)	**01392 383000**	

RECOMMENDATION

It is RECOMMENDED that the Audit Committee review and approve the Internal Audit Charter and Strategy 2016/17.

1. Executive summary

The purpose of this report is to allow the Audit Committee to review and comment upon the Internal Audit Charter and Strategy for 2016/17.

Internal audit management is provided by Devon Audit Partnership (DAP) via a contracted arrangement; the DAP Audit Manager liaises with senior management and the audit committee on all internal audit matters.

The standards for proper practice for internal audit are contained in the Public Sector Internal Audit Standards (PSIAS) (Institute of Internal Auditors and CIPFA.

The PSIAS require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval. These documents are discussed in this report, with the Charter attached at Appendix A and Audit Strategy at Appendix B

2. Background

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state that:

> "5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance"

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Finance Community of Practice Lead is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

Proper practice is that contained in the Public Sector Internal Audit Standards (PSIAS) and guidance as issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in their Local government Application Note (LGAN).

3. Outcomes/outputs

One of the requirements of the Public Sector Internal Audit Standards (PSIAS) is that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter and strategy, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

The PSIAS sets additional Public Sector requirements where the Audit Charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

The Audit Strategy is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities. It will communicate the contribution that Internal Audit makes to the organisation and should include:

- internal audit objectives and outcomes;
- how the DAP Audit Manager will form and evidence their opinion on the governance, risk and control framework to support the Annual Governance Statement;
- how Internal Audit's work will identify and address significant local and national issues and risks;
- how the service will be provided, and
- the resources and skills required to deliver the Strategy.

The Charter says that the Strategy should be approved, but not directed, by the Audit Committee.

Both the Charter and Strategy comply with the mandatory requirements of the Public Sector Internal Audit Standards.

The internal audit charter and strategy for the financial year 2016/17 are set out at **Appendix A** and **Appendix B** respectively.

4. Options available and consideration of risk

No alternative option has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015 and the Public Sector Internal Audit Standards.

5. Proposed Way Forward

The Head of Paid Service, in conjunction with the Finance Community of Practice Lead (S.151) to the Council are responsible for ensuring the provision of an effective and appropriate internal audit service. The internal audit function is delivered by way of Devon Audit Partnership, via a the DAP Audit Manager and the Council's in-house audit team.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit. The Public Sector Internal Audit Standards (PSIAS) apply the Institute of Internal Audit (IIA) International Standards to the UK Public Sector and promote professionalism, quality, consistency and effectiveness of internal audit.
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		

Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

There are no separate appendices to this report.

Background Papers:

Public Sector Internal Audit Standards
2016/17 Service Level Agreement

Appendix A

SOUTH HAMS DISTRICT COUNCIL
INTERNAL AUDIT CHARTER

Terms of Reference

This Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards.

Definitions

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

The PSIAS set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council's Audit Committee and senior management is the Council's Senior Leadership Team.

The PSIAS make reference to the role of "Chief Internal Auditor"; this role is fulfilled by the Devon Audit Partnership (DAP) Audit Manager.

Statutory Requirements

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

> *5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Council, the Finance Community of Practice Lead is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The Purpose and Aim of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

To meet this definition internal audit work will normally include, but is not restricted to:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- Appraising the effectiveness and reliability of the risk management framework and recommend improvements where necessary;
- Supporting the Section 151 Officer to discharge their statutory duties;
- Reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether South Hams District Council is in compliance;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed;
- Reviewing operations or programmes to ascertain whether they are being carried out as planned and objectives and goals are being met.
- Reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.

Right of Access

Internal Audit will be given right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This right will be established in the Council's Delegation to Specific Officers and Financial Procedure Rules within the Constitution.

Professionalism, Ethics and Independence

Being Professional

The Internal Audit Service will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to The Council's relevant policies and procedures and the internal audit manual.

Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

Our Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditor's. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

Being Independent

Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management.

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

Internal Audit should operate within a framework that allows unrestricted access to Members and senior management, particularly the Head of Paid Service, the S.151 Officer and the Chair of the Audit Committee. Additionally, the Audit Manager has freedom to report in their own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee).

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Audit Manager should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent. They;

- Must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;

- Must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

Authority

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, will be given right of access to all records, assets, personnel and premises, including those of partner organisations and authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This right will be established in the Council's Delegation to Specific Officers and Financial Procedure Rules within the Constitution.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that:

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

(2) (a) make available such documents and records; and
(b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

(3) In this regulation "documents and records" includes information recorded in an electronic form.

In addition, Internal Audit, through the Audit Manager, where deemed necessary, will have unrestricted access to:

- Head of Paid Service and the Senior Leadership Team;
- Members;
- Section 151 Officer;
- Monitoring Officer;
- Individual Members of the Extended Leadership Team;
- All authority employees;
- All authority premises.

Accountability

The DAP Audit Manager fulfils the role of Chief Auditor at the Authority and will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The Finance Community of Practice Lead 'Section 151 Officer' will liaise with the Audit Manager and is therefore responsible for monitoring performance and ensuring independence.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Audit Manager reports functionally to the Audit Committee who:

- Approve the internal audit charter;
- Approve the risk based internal audit plan;
- Receive reports from the Audit Manager on the section's performance against the plan and other matters;
- Approve the Audit Manager's annual report.
- Approve the review of the effectiveness of the system of internal audit.

The Audit Manager has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.

Responsibilities

The Head of Paid Service, Senior Leadership Team and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The Audit Manager will provide assurance to the Finance Community of Practice Lead 'Section 151 Officer' regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The Audit Manager will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping her meet obligations under the Local Government and Housing Act 1989 and the Council's Constitution. She will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management;
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests;
- Advising on internal control implications of new systems;

- Providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Being responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues.

Internal Audit Management

The PSIAS describe the requirement for the management of the internal audit function. They set out various criteria that the Audit Manager (as Chief Internal Auditor) must meet, and includes:-:

- Being appropriately qualified;
- Determining the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- Produce a Strategy to explain how the service will be delivered and reflect the Resources and skills required;
- Regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- Include in the plan the approach to using other sources of assurance if appropriate;
- Be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and
- Monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

The Audit Manager is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The Audit Manager should also have the opportunity for free and unfettered access to the Head of Paid Service and meet periodically with the S.151 Officer and the Monitoring Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

Internal Audit Plan and Resources

At least annually, the Audit Manager will submit to the Audit Committee a risk-based internal audit plan for review and approval. The Audit Manager will:

- Develop, in consultation with the Executive Directors and Group Managers an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- Submit the plan to the Audit Committee for review and agreement;
- Implement the agreed audit plan;
- Maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- Maintain a programme of quality assurance and a culture of continuous improvement.

The internal audit plan will include budget and resource requirements for the next fiscal year. The Audit Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

In accordance with the requirements of the Council's Anti Fraud, Corruption and Bribery Policy and Strategy it is management's responsibility to maintain the internal control system and to ensure that the organisation's resources are properly applied in the manner and on the activities intended. This includes responsibility for managing the risk of fraud and other illegal acts and informing the Audit Manager when fraud is suspected or identified. Depending on the nature and anticipated extent of the allegations, Internal Audit will normally work closely with management and other agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Audit Manager to provide assurance. From time to time, independent review is carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

Reporting

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

A written report will be prepared for each internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

The aim of every Internal Audit report should be:

- To give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and
- To recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report in writing. The written response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken this must also be stated. The Audit Manager is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Audit Manager will:

- Submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken;
- Submit an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

Relationship with the Audit Committee

The Council's Audit Committee will act as the Board as defined in the Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 3 Delegation Scheme).

The Audit Manager will assist the Committee in being effective and in meeting its obligations. To facilitate this, the Audit Manager will:

- Attend meetings, and contribute to the agenda;
- Ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- Report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- Present an annual report on the effectiveness of the system of internal audit; and
- Present an annual internal audit report including an overall opinion on the governance, risk and control framework.

Quality Assurance and Improvement Programme

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor. The previous external assessment of Devon Audit Partnership (who under a contractual arrangement manages the internal audit service), was completed in October 2012 and a further assessment is planned for November 2016.

Charter – Non Conformance and Review

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Audit Manager will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.

Appendix B

South Hams District Council
Internal Audit Strategy

Introduction

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In The Council, Finance Community of Practice Lead is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The PSIAS refers to the role of Chief Internal Auditor, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For South Hams Council, the role of Chief Internal Auditor is provided by the Devon Audit Partnership (DAP) Audit Manager via a contractual arrangement.

The PSIAS require the Audit Manager to produce an Audit Strategy, which:

- Is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities, and
- Will communicate the contribution that Internal Audit makes to the organisation and should include:
    - Internal Audit objectives and outcomes;
    - How the Audit Manager will form and evidence their opinion on the governance, risk and control framework to support the Annual Governance Statement;
    - How Internal Audit's work will identify and address significant local and national issues and risks;
    - How the service will be provided, i.e. internally, externally, or a mix of the two; and
    - The resources and skills required to deliver the Strategy.
- Should be approved, but not directed, by the Audit Committee.

The Strategy should be kept up to date with the organisation and its changing priorities.

Internal Audit Objectives and Outcomes

The primary objective of the Internal Audit team is to provide an independent and objective opinion to the Council on the governance, risk and control framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Council's Audit Manager aims to fulfil the statutory responsibilities for Internal Audit by:

- Identifying all of the systems, both financial and non-financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- Creating an audit plan providing audit coverage on the higher risk areas in the Audit Universe;
- Undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- Providing managers with an opinion on and recommendations to improve the effectiveness of risk management, control and governance processes as to:
- Providing managers with advice and consultancy on risk management, control and governance processes;
- Liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- Providing the Council, through the Audit Committee, with an opinion on governance, risk and control framework as a contribution to the System of Internal Control and Annual Governance Statement.

Opinion on the Governance, Risk and Control Framework

As stated above one of the key objectives of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Should any critical issues be identified during the course of the audit work, the Audit Manager will report matters to the Finance Community of Practice Lead (S.151) and Senior Leadership Team for consideration and to enable any necessary action to be taken. Regular formal meetings should also be held to discuss issues arising and other matters.

The Audit Manager will report progress against the annual audit plan and any emerging issues and risks to the Audit Committee.

The Audit Manager will also provide a written annual report to the Audit Committee timed to support their recommendation to approve the Annual Governance Statement to the Council.

The Audit Manager's annual report to the Audit Committee will:

(a) Include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;

(b) Disclose any qualifications to that opinion, together with the reasons for the qualification;

(c) Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;

(d) Draw attention to any issues the Audit Manager judges particularly relevant to the preparation of the Annual Governance Statement;

And for the system of internal audit:

(e) Compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and

(f) Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

Planning including Local and National Issues and Risks

The audit planning process includes the creation of and ongoing revision of an "audit universe". This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council's own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

Assignment planning

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

Provision of Internal Audit

The Internal audit for South Hams District Council is provided by way of a shared service arrangement with West Devon Borough Council.

The Internal Audit service is managed through a contractual arrangement with the Devon Audit Partnership. Audit delivery is predominantly delivered by a small team of in-house auditors. Past benchmarking of the cost of Internal Audit when compared with other Councils has shown that it is a cost effective service that continues to meet the requirements of its stakeholders.

The Audit Manager has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. The manual is regularly reviewed and updated to reflect changes in working practices and standards.

Internal Audit Performance Management and Quality Assurance

External performance assessment is discussed in the Charter at Appendix A.

The PSIAS and the Council's Audit Manual state that internal performance, quality and effectiveness should be assessed at two levels:

- For each individual audit; and
- For the internal audit service as a whole.

The documents also state that the Audit Manager should have in place an internal performance management and quality assurance framework to demonstrate that the internal audit service is:

(a) Meeting its aims and objectives;

(b) Compliant with the PSIAS;

(c) Meeting internal quality standards;

(d) Effective, efficient, continuously improving; and

(e) Adding value and assisting the organisation in achieving its objectives.

This internal performance management and quality assurance framework must include, but not be limited to:

- A comprehensive set of targets to measure performance. These should be regularly monitored and the progress against these targets reported appropriately;
- Seeking user feedback for each individual audit and periodically for the whole service;
- Periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS; and
- An action plan to implement improvements.

The following table shows the key performance indicators used by the service.

Table 1: Internal Audit Key Performance Indicators

Performance Indicator	**Current Target, and, Frequency of Measure**
➢ Achievement of the annual audit plan.	95% Quarterly
➢ Percentage of draft audit reports issued within 10 working days of the completion of the audit.	95% Annually
➢ Percentage of final audit reports issued within 10 working days of the discussion and agreement of the draft audit report.	95% Annually
➢ Customer Survey: Responses Received; ➢ Audit Planning - Consultation; Objectives ➢ Quality of Audit Report - Clarity; Accuracy; ➢ Value; Presentation ➢ Communication - Feedback; Helpfulness; Professionalism; Timeliness.	90% Annually 90% Annually 90% Annually
➢ Overall cost, with/without oncosts/recharges ➢ Average cost per audit day: direct costs, and ➢ With/without oncosts/recharges.	£ Annually £ Annually £ Annually
➢ The percentage of audit reports where the agreed recommendations were satisfactorily actioned, or follow up indicator to align with other audit teams to be agreed later with the Chairman and reported to the Committee.	90% Annually

Once collated the indicators must be reported to the S.151 Officer on either a quarterly or annual basis in line with collection and to the Audit Committee quarterly and/or annually. Performance indicators should be presented with prior year's equivalent to aid comparison.

Performance indicators or targets may be amended from time to time with the prior agreement of the Audit Committee. The Audit Manager needs to ensure that the performance and the effectiveness of the service improve over time, in terms of both the achievement of targets and the quality of the service provided to the user.

Resources and Skills

Resources

The PSIAS and the Council's Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management; and
- The Audit Manager should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

The Internal Audit team, shared with West Devon Borough Council consists of 2 whole time posts; the team is managed through a contractual arrangement with the Devon Audit Partnership.

Specialist Areas

From time to time, additional resources will be brought in to provide assurance on certain specialist areas such as Value Added Tax (VAT) and Income Tax (PAYE) at the discretion of the S.151 Officer in consultation with the Audit Manager.

Dealing with resource issues(such as instances of Alleged Fraud &Corruption)

The main threat to completing the targeted % of the annual audit plan is the requirement for Internal Audit to investigate fraud. A contingency budget is built into the audit plan to provide cover for such eventualities, as well as other unexpected tasks such as advice to managers on control or internal financial regulations, contributions to the setting up of new systems or unexpected additional work on planned audits.

In extreme cases the contingency budget may prove insufficient for large scale investigations. In the circumstances where this occurs and where there is likely to be an impact on the remainder of the annual audit, the Audit Manager must discuss the situation with the S.151 Officer to enable a decision to be made. Such a decision may be to seek additional temporary resources, to defer audits to a future year or other solutions. The same comment applies to other staffing shortages brought about by long term sickness absence, vacant posts etc.

Skills

The Audit Managers duty is to recruit staff with the appropriate professional background, personal qualities and potential. He or she is responsible for ensuring that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

Internal Audit staff must also be properly trained to fulfil all their responsibilities. The Audit Manager will periodically assess individual auditors against these predetermined skills and competencies using the Council's formal appraisal system.

Any training or development needs identified will be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored both within and outside of the appraisal process. Time will be allowed within the annual audit plan to allow internal audit staff to receive the relevant training.

In addition, the Audit Manager will allocate work to reflect the skills and experience required for the specific task, although it is essential that a balance is struck between knowledge and client relationships built through continuity and the need for audit staff to develop by auditing areas that they have not previously covered.

In some circumstances, there may be a skill shortage within the Internal Audit team as a whole e.g. specialist audit areas such as technical computer audit. Where this applies the advice of specialists should be sought from within the Council, from colleagues at Devon Audit Partnership or other neighbouring Councils or the external auditor.