

# South Hams Audit Committee



<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Thursday, 21st September, 2017</b>
<b>Time:</b>	<b>1.00 pm</b>
<b>Venue:</b>	<b>Cary Room - Follaton House</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Pearce</p> <p style="text-align: center;"><b>Vice Chairman</b> Cllr Pennington</p> <p><i>Members:</i> Cllr Bramble Cllr Holway Cllr Brazil</p>
<b>Interests – Declaration and Restriction on Participation:</b>	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.
<b>Committee administrator:</b>	Member.Services@swdevon.gov.uk

<b>1. Minutes</b>	<b>1 - 6</b>
To approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 20 July 2017	
<b>2. Urgent Business</b>	
Brought forward at the discretion of the Chairman;	
<b>3. Division of Agenda</b>	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
<b>4. Declarations of Interest</b>	
Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;	
<b>5. KPMG External Audit Report 2016/17</b>	<b>7 - 36</b>
<b>6. KPMG Presentation - Role of External Audit</b>	
<b>7. Annual Statement of Accounts 2016/17</b>	<b>37 - 182</b>
<b>8. Consultation on Auditor Appointment from 2018/19</b>	<b>183 - 186</b>
<b>9. Six Monthly Update - Strategic Risk Assessment</b>	<b>187 - 198</b>
<b>10. Internal Audit Charter and Strategy 2017/18</b>	<b>199 - 218</b>
<b>11. Update on Progress on the 2017/18 Internal Audit Plan (includes update on Strategic Debt Review)</b>	<b>219 - 244</b>

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 20 JULY 2017**

<b>Members in attendance</b>			
* Denotes attendance			
∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr J A Pearce (Chairman)
*	Cllr J Brazil	*	Cllr J T Pennington (Vice-Chairman)
*	Cllr T R Holway		

<b>Members also in attendance:</b>
Cllrs H D Bastone, M J Hicks, R J Tucker and K R H Wingate

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Paid Service; Section 151 Officer; Group Manager – Business Development; Solicitor (Commercial Contracts and Procurement); Finance Business Partner; and Senior Specialist – Democratic Services

**A.10/17 MINUTES**

The minutes of the meeting held on 22 June 2017 were confirmed as a correct record and signed by the Chairman.

**A.11/17 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.12/17 URGENT BUSINESS**

The Chairman advised that she had agreed for one item of urgent business to be raised at this meeting that was entitled: ‘Treasury Management Strategy 2017/18’. This item had been deemed urgent in light of the matter being scheduled for consideration at the Special Council meeting on 27 July 2017 and would be considered as agenda item 7 (Minute A.15/17 below refers).

**A.13/17 DRAFT STATEMENT OF ACCOUNTS 2016/17**

The Committee considered a report that advised of an overspend amounting to £45,000 that was generated in 2016/17 and that had been funded from the General Fund Balance.

In discussion, the following points were raised:-

- (a) When analysing the budget variations, Members were of the view that it would be beneficial for the headings to be indicatively split into those that were associated with statutory services and those linked to discretionary services;
- (b) A Member reiterated previously raised concerns in relation to the size of the variations arising from the Council's waste service. In wishing to put down a marker, the Committee stated the importance of the service issues being resolved by the Council;
- (c) With regard to the impairment and downward book valuations reducing by £448,000, the Committee requested a more detailed breakdown of this total;
- (d) Officers confirmed that the amendments that were initially suggested by the Committee to the draft Annual Government Statement at its last meeting (Minute A.6/17 refers) had been included in this updated version.

It was then:

### **RESOLVED**

That the Draft Statement of Accounts and the Draft Annual Governance Statement for the financial year ended 31 March 2017 be endorsed.

A.14/17

### **GOVERNANCE AND RISK ASPECTS OF THE PROPOSED COMMERCIAL PROPERTY ACQUISITION STRATEGY**

Following a request made by the Committee (Minute A.7/17 refers), Members considered a report that outlined the risk and governance aspects associated with the proposed Commercial Property Acquisition Strategy.

In discussion, it was apparent that the Committee had serious reservations over these aspects of the proposed Strategy and, in so doing, Members made particular reference to:-

- (a) the lack of adequate provision for investment in a variety of differing asset classes. A Member stated his view that the Strategy was not sufficiently addressing the need to invest in a spread of different asset classes in order to ensure that risk was mitigated as far as was practically possible. The Committee also requested that it be in receipt of the research paper produced by CBRE Global that was referred to in the presented agenda report entitled: '*What's in a number? How to achieve the optimum portfolio size?*';



- (b) skills and capacity. In light of the competitive nature of the industry, Members sought reassurance and an explanation on the statement in the presented agenda report that '*South Hams benefits from employing several officers who have significant experience of acquiring, managing and disposing of multi-million pound commercial properties, both in the private and public sector.*' Furthermore, Members queried the appointments process adhered to for the Invest to Earn Working Group and felt that, in the event of the Strategy being approved, the Terms of Reference and the Composition of the Group should be reviewed. Once this review had been undertaken, the Committee was also strongly of the view that its membership should then be revisited and determined on a 'fit for purpose' basis akin to the process adopted by the Salcombe Harbour Board;
- (c) the risk of legal challenge. Whilst the report highlighted that there was a risk of legal challenge, the view was expressed that the emphasis on this particular risk had been significantly underplayed;
- (d) the risk associated with a drop in capital value (e.g. Brexit impact, local economy implosion and market downturn). Such was the climate of uncertainty at present, that Members were adamant that the score associated with this risk should be increased from a definition of 'manage' to 'escalate'. As a general point on the risk analysis of the Strategy, the Committee raised further queries over some of the associated scores. As a consequence, the Committee concluded that these changes would necessitate an updated Risk Analysis being produced and circulated to all Members of the Council before the Special meeting on 27 July 2017;
- (e) the anticipated low profit margins when comparing costs with yields. A Member highlighted the risk associated with a reduction in rental income (void / tenant default / tenant liquidation) and was of the view that such an income stream was too unpredictable to warrant his support of the Strategy;
- (f) the exit strategies. Members were also dissatisfied at the lack of information concerning exit strategies arising from both the purchase of each individual Commercial Property and the loan commitment;
- (g) regular reviews of the Strategy. In the event of the Strategy being approved by the Council, Members emphasised the importance of regular reviews being undertaken during each tranche of the project.

In response to these reservations, officers attempted to allay a number of the concerns expressed and reminded the Committee that the Strategy had been designed to provide a sufficient income stream to cover a meaningful proportion of the Council's predicted budget gap. Nonetheless, Committee Members remained unanimous in their concerns over the risk and governance aspects of the proposed Strategy and wished for these views to be reflected in a resolution that would be presented to the Special Council meeting on 27 July 2017 and it was consequently **PROPOSED** and **SECONDED** and put to the vote declared **CARRIED**:

**RESOLVED**

That the Audit Committee:

1. has considered the Council's draft Commercial Property Acquisition Strategy and expresses its particular concerns that the risks attached to the following areas have not been adequately addressed or mitigated:
  - (a) The Exit Strategies arising from both the purchase of each individual Commercial Property and the loan commitment;
  - (b) The Strategy not making adequate provision for investment in a variety of different asset classes; and
  - (c) The anticipated low profit margins when comparing costs with yields;
2. requests that an updated Risk Analysis of the Strategy be produced and circulated to all Members of the Council before its meeting on 27 July 2017; and
3. **RECOMMEND** to Council that the Terms of Reference and Composition of the Council's Invest to Earn Member Working Group be reviewed, with Working Group Members then being appointed to serve on a newly constituted Group on a 'fit for purpose' basis.

A.15/17

**TREASURY MANAGEMENT STRATEGY 2017/18**

As previously advised (Minute A.12/17 above refers), the Committee considered (for information purposes) an urgent report that sought ultimate Council approval of a revised Treasury Management and Investment Strategies for 2017/18 together with their associated prudential indicators.

In discussion, the following points were raised:-

- (a) Members acknowledged that the proposed revisions to these Strategies were wholly dependent upon the approval of the Commercial Property Acquisition Strategy;
- (b) In light of inflation rising, some surprise was expressed at the interest rate forecast figures contained in the agenda report. In response, the Section 151 Officer advised that the published figures had been obtained by Capita Asset Services (the Council's appointed Treasury Advisor) only the day before this Committee meeting.

It was then:

**RESOLVED**

That the report be noted.

(Meeting commenced at 2.00 pm and finished at 4.40 pm)

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Chairman

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# External audit report 2016/17

**South Hams District Council**

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21 September 2017



# Contents

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## The key contacts in relation to our audit are:

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This report is addressed to South Hams District Council (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](http://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 8961, or by email [andrew.sayers@kpmg.co.uk](mailto: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](mailto: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.

# Summary for Audit Committee

- Financial statements** This document summarises the key findings in relation to our 2016-17 external audit at South Hams District Council ('the Authority'). We previously reported on our interim work in our WDBC 2016-17 *Interim Letter* in June 2017.
- This report focusses on our on-site work which was completed in March and July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our controls assessment findings from interim and final audit are summarised on pages 4 – 7, with the final audit work on pages 8 - 18.
- Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements on 21 September 2017 which is over a week before the statutory deadline of 30 September 2017.**
- We have not identified any audit adjustments.
- Based on our work, we have raised one recommendation in regards to non-significant control deficiencies identified in interim and final audits. Details on our recommendation can be found in Appendix One.
- We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter in line with statutory deadlines.
- Value for Money** We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. 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 value for money opinion.**
- See further details on pages 19-24.
- 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 ask the Audit Committee to note this report.**



**Section one**

# Controls assessment





This section summarises the key findings arising from our work completed during our interim and final audit testing for the 2016/17 Financial Statements.

This covered:

- review of the Authority’s general control environment, including gaining an understanding of the Authority’s IT systems and testing general IT controls;
- testing of certain controls over the Authority’s key financial systems; and
- review of relevant internal audit work which we sought to rely upon.



# Organisational Control Environment

Your organisational control environment is effective overall.

## Work performed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing over all of these controls.

## Key Findings

We consider that your organisational controls are generally effective overall.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Aspect	Our Assessment	
	2016/17	2015/16
Organisational controls	3	3
Management's philosophy and operating style	3	3
Culture of honesty and ethical behaviour	3	3
Oversight by those charged with governance	3	3
Risk assessment process	3	3
Communications	3	3
Monitoring of controls	3	3
IT control environment	3	3

- Key:
- 1 Significant gaps in the control environment.
  - 2 Deficiencies in respect of individual controls.
  - 3 Generally sound control environment.

# Controls over Key Financial Systems

The controls over the key financial systems are generally sound. We have raised one recommendation during the year. However, the control weakness identified did not have a significant impact on our audit.

## Work performed

We review the outcome of internal audit's work on financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy and our audit risk assessment. Our review of internal audit work does not represent an external review against PSIAS, as required at least every five years.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with the internal auditor's opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

## Key Findings

Based on our work, and the work of your internal auditors, in relation to those controls upon which we will place reliance as part of our audit, the key financial systems are generally sound. However, we were unable to rely on some controls throughout the year. The following ratings are based on the design and implementation of the controls in operation at the Council. The deficiencies include:

- Monthly benefit payment checks were not performed in November 2016 due to staff absence and other reconciliations did not include evidence of reconciliation and reported discrepancies;
- Housing benefits weekly reconciliations were not being performed from 31 August 2016 through March 2017; and
- Cash and refund reconciliations were not being performed in a timely manner.

We have identified one recommendation which we have discussed with you and your team. We have identified mitigating controls within the control environment to confirm that the control weakness did not have a significant impact on our audit.

We have performed testing over the year end reconciliations and note that all of them have been completed accurately and are evidenced as reviewed as part of the year end process.

Aspect	Our Assessment	
	2016/17	2015/16
Payroll costs	3	3
Cash and cash equivalents	3	3
Housing Benefits	2	2
Housing Revenue Account	3	3
Council Tax and NNDR	3	3
Pensions	3	3
Purchases	3	3
Journals	3	3

- Key:
- 1 Significant gaps in the control environment.
  - 2 Deficiencies in respect of individual controls.
  - 3 Generally sound control environment.

**Section Two**

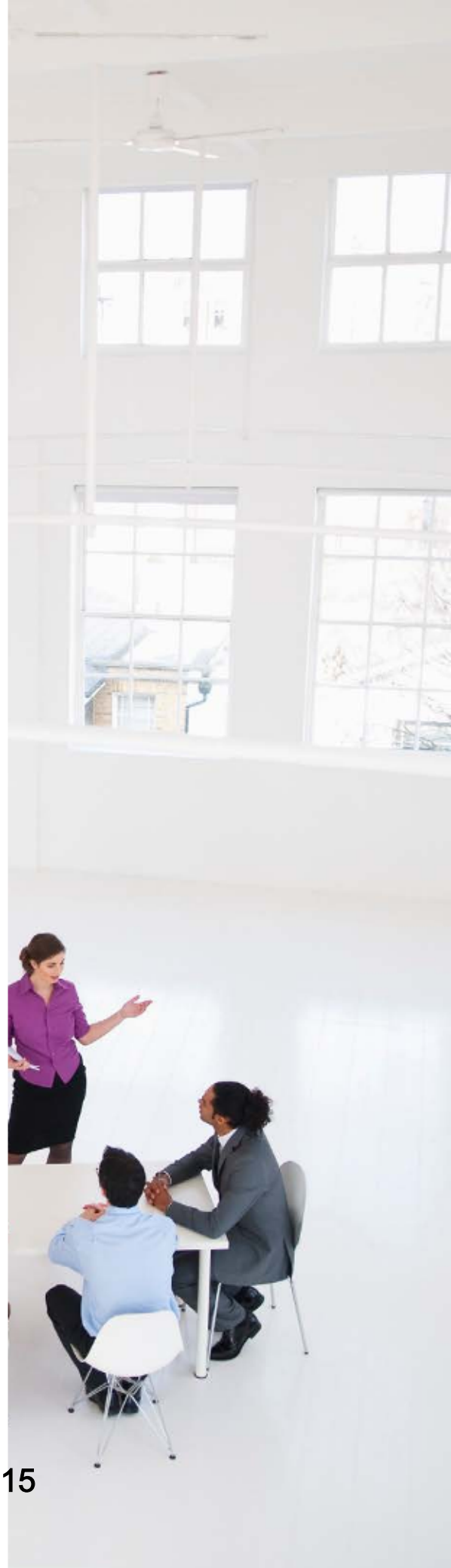
# Financial Statements





We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 21 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported an overspend of £45,000 in the General Fund during the year. This has resulted from a movement in surplus of £7.1m (post-audit) on Provision of Services offset by £9.6m adjustment between accounting basis and funding basis under regulations and £2.4m of transfers between Earmarked Reserves.



# Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work.

Significant audit risks	Work performed
<p><b>1. Significant changes in the pension liability due to LGPS Triennial Valuation</b></p>	<p><b>Why is this a risk?</b></p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the <i>Local Government Pension Scheme (Administration) Regulations 2013</i>. The Authority's share of pension assets and liabilities for each admitted body was determined in detail, and a large volume of data was provided to the actuary to support this triennial valuation.</p> <p>There was a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data was provided to the actuary by Devon County Council, the administrator of the Pension Fund.</p> <p><b>Our work to address this risk</b></p> <p>We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues. We have also substantively agreed the total figures submitted to the actuary to the general ledger with no issues noted. We critically assessed the assumptions used in the pension valuation at 31 March 2017 to determine whether they were appropriate.</p> <p>We did note that two of the assumptions used by Barnet Waddingham were outside the acceptable range per the annual PWC report on Local Government Pension Schemes, which is commissioned by the National Audit Office. We engaged our in-house actuaries to assess the impact of the differences, who noted an off-setting effect on the pension liability. As such no accounting adjustments were raised in respect to the assumptions used.</p> <p>Management may wish to consider discussing with other employers in the Devon County Council scheme whether, in future years, assurance should be sought from the actuaries engaged to prepare the valuation reports over the methodology to be used. This may avoid further challenge on these assumptions going forward. See page 13 for our assessment on the assumptions used by the actuary in the IAS19 report.</p>
<p><b>2. Allocation of Shared Costs</b></p>	<p><b>Why is this a risk?</b></p> <p>The Authority operates on a shared service basis 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 in order to ensure that these are shared on an appropriate and consistent basis. It is essential 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 resources are consumed.</p> <p><b>Our work to address this risk</b></p> <p>We have reviewed the basis of allocation between South Hams and West Devon and have found this to be appropriate and reflect the nature of the activities involved. The allocation basis is consistent from prior year and was approved by the Audit Committee on 22 June 2017.</p> <p>We have performed an analytical review of the staff recharges for 2016/17 as this expenditure results in over 90% of shared costs between the councils. No issues were identified as a result of the above work.</p> <p>We have also reviewed the shared services (non-salaries) and the costs have been reasonably apportioned between the two councils. No issues were identified.</p>

# Significant audit risks (continued)

Significant audit risks	Work performed
<b>3. Business Rates Appeals</b>	<b>Why is this a risk?</b> <p>As a result of the localisation of non-domestic rates, the Authority has assumed responsibility in relation to payments arising from valuation appeals. At the time of our planning report being issued, there was a potentially significant appeal awaiting conclusion in relation to a property located within the Authority's boundaries. Whilst the exact outcome was still to be determined, there was a risk that the Authority would be liable for significant back payments to 1 April 2010 as well as ongoing reductions to annual non-domestic rates income.</p> <p>As a result the Authority's NNDR3 return for 2015/16 included a significant increase of £26.7 million in the appeals provision. Whilst this would have been shared with Central Government, Devon County Council and Devon &amp; Somerset Fire &amp; Rescue through the Collection Fund, the impact on the Authority would have been 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. This was therefore provided for in the Authority's 2015/16 financial statements.</p> <b>Our work to address this risk</b> <p>During 2015/16 we considered the provision which the Authority included in its financial statements in relation to business rates appeals. We reported last year that whilst the provision was highly cautious it was not inappropriate under the applicable accounting standards given the continued uncertainty over the final outcome of the related appeal made to the other local authorities.</p> <p>The appeal was concluded in March 2017 and therefore the provision was reversed during the year. We have reviewed the Valuation Office confirmation of the outcome of the appeal and have assessed that the provision reversal for the year of £27.4m (including all provision reversals) is reasonable and that the year end appeals provision has been calculated appropriately.</p>

## Considerations required by professional standards

### 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 2016/17* 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. Our work on the allocation of shared costs, reported on page 10, also contributes to this assessment.

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



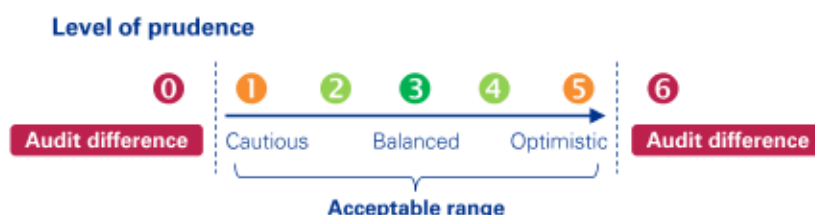
# Other areas of audit focus

We identified two areas of audit focus. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
<p><b>1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS</b></p>	<p><b>Background</b></p> <p>CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul style="list-style-type: none"> <li>— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and</li> <li>— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.</li> </ul> <p>The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p><b>What we have done</b></p> <p>We have obtained an understanding of the methodology used to prepare the revised statements and the prior period restatement. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.</p> <p>We have reviewed the draft statement of accounts against the CIPFA disclosure checklist and made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.</p>
<p><b>2. Change in accounting policy relating to accruals de minimis threshold</b></p>	<p><b>Background</b></p> <p>During 2015/16 the Authority amended its policy in relation to the recognition of revenue accruals to increase the de minimis threshold from £1,000 to £2,500. A further revision was planned for 2016/17 which saw the threshold increase to £5,000. These changes have been made as part of the overall review of closedown arrangements by the Finance Community of Practice in order to identify the changes that are needed to support faster close of the accounts given the change to statutory deadlines for 2017/18 onwards.</p> <p><b>What we have done</b></p> <p>We have reviewed the change in accruals levels between 2015/16 and 2016/17 and confirm that the policy change has been accounted for appropriately. The change in accrual levels due to the change of threshold does not materially impact the financial statements.</p> <p>No issues were identified as a result of the above work.</p>

# Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
<b>Provisions</b>	3	3	The Authority's provision have decreased significantly due to a large number of appeals being settled during the year. We identified no issues in relation to the appropriateness of this provision.
<b>Revenue accruals</b>	3	3	The Authority has revised its approach to calculating revenue accruals during the year and has increased its de minimis threshold from £2,500 to £5,000 in 2016/17. 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. The value of the transactions between the two ranges compared to prior year is immaterial. No issues identified from our work performed.
<b>PPE: Asset lives/ valuation</b>	3	3	<p>The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has utilised internal valuation expert to provide valuation estimates.</p> <p>We have reviewed the methodology and process instructions for the revaluation performed during the year. A full valuation is performed on a rolling basis to cover 20% of assets per annum over a five-year cycle. Assets not included in the full valuation are also assessed in order to ensure that carrying amounts are not materially different to current values at the year-end.</p> <p>Based on the last three years of revaluations, 92% of the asset value have been valued accordingly (34% were revalued during 2016/17), therefore we have gained assurance that the assets not revalued during the year have not materiality changed as at 31 March 2017. We have critically assured the judgements involved with no issues noted.</p> <p>We recommend that documentation for the revaluation process be improved for the coming years and that specific quantification for methodology be used (ie reference to published industry standard indices for asset types) for those not valued in year.</p>

# Judgements (cont.)

Subjective areas	2016/17	2015/16	Commentary
Pensions	3	3	<p>We have reviewed the actuarial assumptions for the current financial year and noted the following:</p> <ul style="list-style-type: none"><li>- The discount rate used is considered less prudent than the KPMG expected assumption but consistent with the approach taken last year and within the acceptable tolerance range. This less prudent approach therefore places a lower value on liabilities. Based on the report, every 0.1% outside of the assumption the discount rate is, the liability will be impacted by 2%, which is materiality significant for the Authority.</li><li>- The Pension increases (CPI) assumption of 2.7% is a fixed margin below RPI of 0.9% which is the lowest range in those reviewed by PWC. This was considered more prudent than our expected assumption and the methodology is reasonable and consistent with prior year.</li><li>- The salary increase and mortality assumptions were both considered consistent and reasonable.</li></ul> <p>Overall, the net discount rate (i.e. the discount rate less CPI inflation) is within our tolerable range despite both individually being towards the extremes of our acceptable ranges. Therefore we consider the assumptions in combination to be reasonable.</p>

## Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 21 September 2017.

**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 level for this year's audit was set at £1.2 million (see Appendix Two). Audit differences below £60,000 are not considered significant.

We did not identify any material misstatements. We identified a limited number of issues that have been adjusted by management but they do not have a material effect on the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2017.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

**Annual governance statement**

We have reviewed the Authority's 2016/17 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 comments in respect of its format and content which the Authority has agreed to amend where significant.

**Narrative report**

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. It is particularly noteworthy that thought and effort has been given to including a range of non-financial information.

**Movements on the general fund 2016/17**

£m	Pre-audit	Post-audit
Surplus/(Deficit) on the provision of services	7.152	7.152
Adjustments between accounting basis and funding basis under Regulations	(9.586)	(9.586)
Transfers (to)/from earmarked reserves	2.389	2.389
<b>Decrease in General Fund</b>	<b>(0.045)</b>	<b>(0.045)</b>

**Balance sheet as at 31 March 2017**

£m	Pre-audit	Post-audit
Property, plant and equipment	75.392	75.392
Other long term assets	0.697	0.697
Current assets	36.568	36.568
Current liabilities	(12.975)	(12.975)
Long term liabilities	(57.843)	(57.843)
<b>Net worth</b>	<b>41.839</b>	<b>41.839</b>
General Fund	1.765	1.765
Earmarked reserve	13.074	13.074
Other usable reserves	4.027	4.027
Unusable reserves	22.973	22.973
<b>Total reserves</b>	<b>41.839</b>	<b>41.839</b>



# Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.



## Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices appropriate for this year's audit. They have finalised the accounts in a shorter timescale to place themselves in a good position to meet the new 2017/18 deadline. The Finance team should be commended for producing accounts that did not require any audit adjustments.

The team should continue to liaise with KPMG as concerns arise or where there are areas requiring key judgements.

## Completeness of draft accounts

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline.

We note that the Authority will need to further advance the accounts production timetable for next year's earlier deadline.

## Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January and June 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We followed these up with meetings with Management to discuss specific requirements of the document request list.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that the Finance team have worked hard to close down the accounts in a faster timescale in preparation for the earlier statutory deadlines next year, and in doing so, this has resulted in good-quality accounts and working papers with clear audit trails which supported the audit process well.

## Response to audit queries

We expect that where possible, audit enquires have a turnaround time of two working days. This was achieved in most areas, except for areas where staff who prepared the working papers were not part of the finance team or were not available during the audit.

As a result of this, all our audit work is expected to be completed within the timescales agreed. At current, the following areas are ongoing:

- Updating our assessment of subsequent events;
- Receipt of the management representation letter; and
- Receipt and review of the final version of the financial statements.

# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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.**

## **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 2017, 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 Lisa Buckle for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

## **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 2016/17 financial statements.





**Section three**

# Value for money

Our 2016/17 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 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.



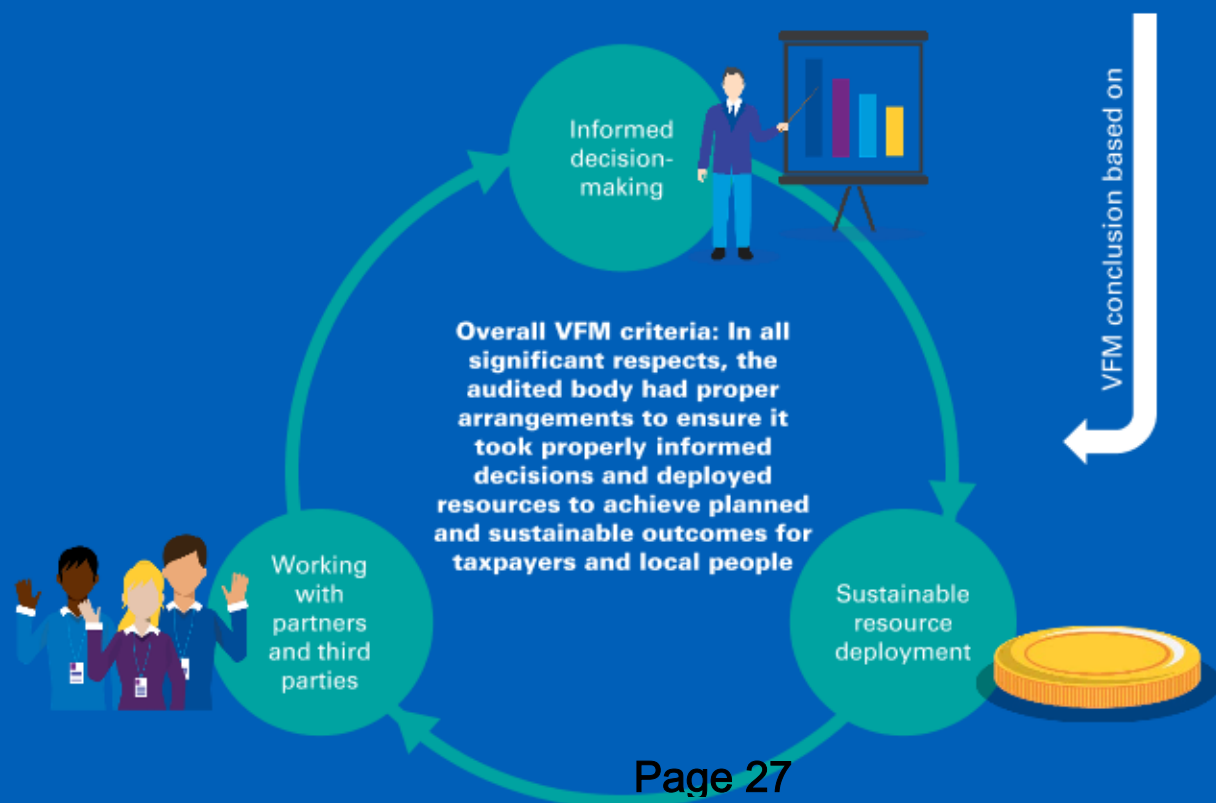
# VFM conclusion

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.'

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.



# VFM conclusion - headline results

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Delivery of Savings Plans	✓	✓	✓
2. T18 Transformation programme	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, 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.

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; and
- Performed testing over the identified risk areas during our final audit visit.

Further details on the work done and our assessment are provided on the following pages.

# Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. 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.

Significant VFM risks	Work performed
<b>1. Delivery of Savings Plans</b>	<p><b>Why is this a risk?</b></p> <p>At the time of our planning report, the Authority has identified the need to make savings of £1.3m in 2016/17. The forecast shows that the Authority will deliver an overspend of approximately £27,000 at year end.</p> <p>The Authority's budget for 2017/18 includes savings of £0.9m. Subsequent years shows further funding gaps however, resulting in a total net budget gap of £0.8m for the period 2018/19 to 2021/22. Further significant savings will be required in 2018/19 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.</p> <p><b>Summary of our work</b></p> <p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the Authority's financial pressures.</p> <p>Post-audit, the Authority is reporting an overall overspend of £0.05 million in the General fund balance resulting from £7.1 million surplus on its Provision of Services in 2016/17 and a transfer of £2.4 million from the Earmarked reserves. This is offset by a £9.6 million adjustment between accounting basis and funding basis under regulations. This enabled the General Fund balance to remain consistent from prior year, with the balance of £1.8 million as of 31 March 2017.</p> <p>We have performed a budget review for 2016/17 compared to actual results for the year and note that the budgeted figures for the period do not differ significantly from the actual figures in the Statement of Accounts and as such, the budgeting process can be seen as reliable and prudent. The spending, savings and service delivery continues to be monitored through the quarterly budget monitoring reports within the Committee and board meetings.</p>

Significant VFM risks	Work performed
<b>2. T18 Transformation programme</b>	<p data-bbox="446 292 651 317"><b>Why is this a risk?</b></p> <p data-bbox="446 337 1349 561">As part of its response to the central government funding reductions, and in order to improve the efficiency of its operations, the Authority initiated a major transformation programme ("T18"), working closely with West Devon Borough Council. This programme resulted 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.</p> <p data-bbox="446 582 1349 779">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. In addition, the allocation of temporary resources was required during 2015/16 and into 2016/17 as a result of delays in IT systems being implemented to support new delivery models. Such costs will be exceeded by the ongoing recurrent annual savings that will be achieved by way of the programme.</p> <p data-bbox="446 799 696 824"><b>Summary of our work</b></p> <p data-bbox="446 845 1349 1042">The T18 transformation programme undertaken by management in the prior years continues to reduce some of the council's expenses and increase service delivery potential and ability. The savings from the Transformation Programme has meant that, even with the continued reduction of government funding, the Council is well placed to deal with future challenges. The Council should continue seeking programmes and strategies that will enable long term sustainability in a continually changing sector.</p> <p data-bbox="446 1062 1349 1197">We have reviewed the quarterly budget reports for the year and we are satisfied that the Authority adequately documents the progress and challenges resulting from the T18 programme. In particular, areas which need to be addressed along with relevant solutions, whilst increasing the payback period by four months, will help to achieve sustainable resources and services in the future.</p> <p data-bbox="446 1218 1349 1508">Following the implementation of the T18 Transformation programme, the councils have continued to challenge how they should be structured and deliver services, in order to meet predicted future financial challenges. During 2016/17 this involved exploring the potential to establish a Local Authority Controlled Company (LACC) through which the majority of service delivery would be channelled. Following detailed consideration, the LACC option was ultimately not pursued, and the councils are now pursuing the possibility of a formal One Combined Council. The Council has therefore demonstrated an on-going willingness to consider radical options to secure its financial and service resilience in the future, as well as keeping these options under review and taking informed decisions.</p>



The background of the page is a close-up photograph of a wooden desk. In the foreground, the tip of a silver pen is visible. To the right, there is a stack of papers, with a red folder or document partially visible. The lighting is warm and soft, creating a professional and organized atmosphere.

# Appendices

# Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified one issue. We have listed the issue below with our recommendation which we have agreed with Management. We have also included Management's response to this recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendation. We will formally follow up these recommendation next year.

Each issue and recommendation have been given a priority rating, which is explained below.



Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

### 2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	-	-	-
Medium	-	-	-
Low	-	1	1
<b>Total</b>	-	<b>1</b>	<b>1</b>



#### 1. Performing Monthly reconciliations

We have identified 3 non-significant control deficiencies during our 2016/17 audit in regards to monthly reconciliation controls over housing benefits.

We acknowledge that there was an absence of staff responsible for performing the reconciliations however there is a monthly process checklist that provides guidance on required tasks to be completed every month. The Authority should have allocated staff to cover the key members to ensure that monthly processes are completed.

#### Recommendation

Ensure that sufficient closedown staff are trained to complete the monthly process checklist over the financial statement balances to ensure that adequate review is performed over the monthly financial information.

The overarching principle is that monthly reconciliations should be completed and reviewed in a timely manner throughout the year and any reconciling items be explained and cleared the following month.

#### Management Response

The recommendation is agreed with. Officers will ensure reconciliations are completely on a timely basis.

#### Owner

Housing Benefits Manager

#### Deadline

This has been addressed.

# Materiality and reporting of audit differences

## 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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £1.2 million which equates to around 2 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 (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.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

### Auditor declaration

In relation to the audit of the financial statements of South Hams District Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and South Hams District Council, and 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.



## Appendix 4

# Audit fees

### Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work			
Description of non-audit service	Estimated fee	Billed to date	Potential threat to auditor independence and associated safeguards in place
Housing Benefits Grants Certification	£7,328	£7,328	The certification of the Housing Benefits Subsidy return forms part of our contractual responsibilities as the Authority's appointed auditor. The nature of this audit-related services is such that we do not consider it to create any independence threats.
<b>Total estimated fees</b>	<b>£7,328</b>	<b>£7,328</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>17%</b>		

### Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £43,404 plus VAT which is consistent with the prior year.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £7,328 plus VAT, see further details below.

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
<b>Accounts opinion and use of resources work</b>		
PSAA scale fee set in March 2016	43,404	43,404
<b>Subtotal</b>	<b>43,404</b>	<b>43,404</b>
<b>Housing benefits (BEN01) certification work</b>		
PSAA scale fee set – planned for September 2017	7,328	7,670
<b>Total fee for the Authority set by the PSAA</b>	<b>50,732</b>	<b>51,074</b>

All fees are quoted exclusive of VAT.



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# Agenda Item 7

Report to: **Audit Committee**  
Date: **21 September 2017**  
Title: **Annual Statement of Accounts 2016/2017**  
Portfolio Area: **Support Services**  
Wards Affected: **All**  
Relevant Scrutiny Committee: **Overview and Scrutiny Panel**

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

Author: **Pauline Henstock** Role: **Finance Community of Practice Lead (Deputy S.151 Officer)**

Contact: **Tel. 01803 861377**  
**Email: pauline.henstock@swdevon.gov.uk**

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## **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 2017 (Appendix B).
3. The Annual Governance Statement post audit (Appendix C)

## **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 2016/17. **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 Section 151 Officer (Strategic Finance Lead) 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 approval and publication of accounting statements. 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.

Following the 'telling the story' review by CIPFA, the 2016/17 Code changed the segmental reporting arrangements for the CIES. From 2016/17 local authorities are required to report their Cost of Services based on the way in which they operate and manage services.

There is no longer a requirement for the service expenditure analysis to be based on the Service Reporting Code of Practice for Local Authorities. The 2016/17 CIPFA Code also introduced a new financial statement, the Expenditure and Funding Analysis. This brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund. In addition, the narrative statement 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.

5) The Annual Governance Statement (AGS) for 2016/17 shown in Appendix C reflects the new reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The new requirements include:

- An acknowledgement of responsibility for ensuring there is a sound system of governance.
- A reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment.
- An opinion on the level of assurance that the governance arrangements can provide.
- An agreed action plan.
- A conclusion.

The only change to the Annual Governance Statement (AGS) from the version the Audit Committee considered at its July 2017 meeting, is that the Annual Governance Statement has been page numbered following the audit of the AGS.

### **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 over spend on the General Fund in 2016/2017 of £45,000 is essentially a break-even position. **The 2016/17 budget was £8.75 million and therefore the deficit of £45,000 means that the actual spend was 0.5% more than the budget.** This small over spend will be funded from the Council's Unearmarked Reserves which now stand at £1.8 million. The main variations from budget are shown on Pages 9 of the Narrative Statement in the Statement of Accounts.

#### **2) Capital Expenditure**

Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £3 million in 2016/17. The main areas of expenditure were as follows:

- Residential renovation grants including disabled facility grants
- Purchase of land, and
- Scheduled replacement of plant and vehicles.

#### **3) Audit of Accounts**

The draft SOA was considered by the Audit Committee on 20 July 2017. 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 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 Section 151 Officer (Strategic Finance Lead) 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	<p>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.</p> <p>The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).</p>
Financial	Y	<p>The financial implications to this report are that an over spend of £45,000 was generated in 2016/2017.</p>
Risk	Y	<p>1) <b>Public Accountability</b> – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is recognised by statute as representing proper accounting practice.</p> <p>2) <b>Resource Planning</b> – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy.</p>

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.

### **Supporting Information**

**Appendix A – Letter of Representation**

**Appendix B – Statement of Accounts 2016/17**

**Appendix C – Annual Governance Statement 2016/17**

### **Background Papers:**

**Finance Community of Practice final accounts working papers.  
Audit Committee 20 July 2017 – Draft Statement of Accounts 2016/17.**

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>

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KPMG LLP  
3 Assembly Square  
Britannia Quay  
Cardiff  
CF10 3AX

21 September 2017

Dear Darren

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 2017, 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 2017 and of the Authority’s expenditure and income for the year then ended;
- 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 2016/17.

These financial statements comprise the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, the Movement in Reserves 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 2017 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 2016/17.

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.

### **Information provided**

4. 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.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. 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.

- 7. 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.
- 8. 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.
- 9. 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*.
- 10. Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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.
- 11. 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.

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

This letter was tabled and agreed at the meeting of the Audit Committee on 21 September 2017.

Yours sincerely,

Councillor J A Pearce – 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 and the Expenditure and Funding Analysis.

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 2016/17.

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).
  - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting 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.



**South Hams District Council  
Audited Statement of Accounts  
2016/2017**



**South Hams  
District Council**

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### **Statement of Accounts 2016-17**

*The Statement of Accounts 2016-17 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 2016/17 Statement of Accounts by Councillor Tucker, Leader of South Hams District Council**



I am very pleased to welcome you to the 2016/17 Statement of Accounts for South Hams District Council. It has undoubtedly been a challenging year with central funding for local government reducing. South Hams has continued to work in partnership with West Devon Borough Council which has allowed South Hams District Council to achieve annual savings of £3.9 million and more importantly protect all statutory front line services.

During the year we have been unrelenting in seeking and attempting to deliver efficiencies and improving services. We have done this by adopting innovative IT solutions which admittedly haven't been without their glitches but are now steadily improving performance.

The year has also seen the Council make good progress with the Joint Local Plan, a strategic planning document which sets out development and growth up until 2034. Working together South Hams District Council, West Devon Borough and Plymouth City Councils have approved a Joint Local Plan which subject to further community consultation and examination is on track to be adopted later this year and will set home building and job targets for all three authorities.

The Council has continued to play an influential role in sub regional debate on a number of key topics including devolution and productivity and continues to work closely with the Heart of the South West Local Enterprise Partnership (LEP) to secure Growth Deals to facilitate economic growth, job creation and prosperity in the area.

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 £0.6 million for next year (cumulative budget gap of £2.3 million by 2022), whilst protecting its much valued services.

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 that has resulted in essentially a break-even position of a £45,000 deficit for the year (0.5% of the £8.75 million net budget). This prudent management of our finances and our strategic financial planning enable 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 Council continues to do everything it can to make sure that residents, businesses and front-line services come first. The financial standing of the Council remains sound, with a good degree of resilience, for what will undoubtedly be, very challenging times ahead.

**Councillor Tucker, Leader of the Council**



## **Foreword by the Executive Director, (Strategy and Commissioning) and the Executive Director (Service Delivery and Commercial Development)**

The Council has made substantial progress in designing services which are more in line with our customers' requirements and as far as possible future proofed. Our staff are to be congratulated for the way in which they have managed the significant changes that the organisation has undergone through its Transformation Programme and they, together with the Councillors, are proud of what we have achieved.

During 2016/17 the Government offered Local Authorities the opportunity to apply for a four year agreed funding settlement, subject to the production of an efficiency plan. The Council applied and was accepted for the four year agreement.

By 2018/19 the Council receives 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. The Council's Settlement Funding Assessment (Government Grant and funding from Business Rates) is reducing by a further 39% between now and 2019/20. District Councils such as South Hams have also suffered a large reduction in their New Homes Bonus funding (£0.5 million in 17/18) due to the number of years payments being reduced from six years to five years in 17/18 and four years from 18/19 onwards. The funding being released is to contribute towards adult social care costs, a function carried out by Unitary and County Councils.

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 best use of our assets, identifying new income streams and actively pursuing all opportunities to increase the resources available and further reduce costs. The options that the Council is exploring to secure financial stability are further explained in the Narrative Statement.

It is hugely concerning that the Queen's Speech did not reintroduce the Local Government Finance Bill, which provided the legislative framework for the introduction of 100% Business Rates Retention. With no Revenue Support Grant in 2018/19, the loss of the 100% business rates is a further threat to being able to pay for valuable services. This could have a significant impact on the funding for local government in the future. To address these risks, the Council will continue to focus on long term strategic financial planning.

**Steve Jorden, Executive Director (Strategy and Commissioning)**  
**Sophie Hosking, Executive Director (Service Delivery and Commercial Development)**

## **Message from the Section 151 Officer & Strategic Finance Lead - 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 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 2017 and how the Council has performed against the budget set for 2016/17.
- 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 provides information about South Hams, including the key issues affecting the Council and its Accounts. Following the 'Telling the Story' review by CIPFA of the presentation of local authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis. This is a new Statement this year and the changes are just presentational. There is no financial impact on the Council.

The new Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance. Service costs shown in the CIES will no longer be on a Service Code of Practice (SerCOP) basis. They will be shown by Group Manager area (Strategy and Commissioning, Customer First, Commercial Services and Support Services) and are on the same basis used in the management accounts.

Providing residents and other stakeholders with the confidence that the public money we are responsible for has been properly accounted for remains very important to us. We have embedded financial management disciplines, processes and procedures and the financial standing of the Council continues to be robust.

**Mrs Lisa Buckle BSc (Hons), ACA**  
**Section 151 Officer & Strategic Finance Lead**

## NARRATIVE REPORT – INTRODUCTION

- 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

- The 2016/17 budget for South Hams was £8.75 million. A deficit of £45,000 means that the actual spend was 0.5% more than the budget. This small deficit will be funded from the Council's Unearmarked Reserves which stand at £1.8 million.* The main components of the General Fund budget for 2016/17 and how these compare with actual income and expenditure are set out below:

	<b>Estimate £000</b>	<b>Actual £000</b>	<b>Difference Cost/ (Saving) £000</b>
Cost of services (after allowing for income and reserve contributions)	8,900	8,936	36
Parish precepts	1,845	1,845	-
Interest and Investment income	(148)	(134)	14
<b>Amount to be met from Government grants and taxation</b>	<b>10,597</b>	<b>10,647</b>	<b>50</b>
<i>Financed from:</i>			
Revenue Support Grant	(749)	(754)	(5)
Business Rates	(1,765)	(1,765)	-
Council tax	(7,411)	(7,411)	-
Surplus on Collection Fund	(210)	(210)	-
Transition Grant	(56)	(56)	-
Rural Services Delivery Grant	(406)	(406)	-
<b>DEFICIT FOR 2016/17</b>	<b>-</b>	<b>45</b>	<b>45</b>

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

	£000
General Fund Balance (un-earmarked revenue reserve) at 1 April 2016	(1,810)
<b>Deficit for the 2016/17 financial year</b>	<b>45</b>
General Fund Balance (un-earmarked revenue reserve) at 31 March 2017	(1,765)

4. The deficit on the General Fund of £45,000 is essentially a break-even position and represents less than 0.1% of the Council's gross turnover of £69 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 deficit for the 2016/17 financial year.

	£000
<b>Total Comprehensive Income and Expenditure Statement</b>	<b>1,527</b>
Surplus on the revaluation of Property, Plant and Equipment	1,432
Remeasurements of the net defined benefit pension liability	(10,111)
Transfers to earmarked reserves	(2,389)
The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations' in the General Fund Balance column.	
Adjustments primarily involving the Capital Adjustment Account	(702)
Adjustments primarily involving the Capital Receipts Reserve	567
Adjustments primarily involving the Pensions Reserve	(832)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	(106)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	10,664
Adjustments primarily involving the Accumulated Absences Account	(5)
<b>Deficit for the 2016/17 financial year</b>	<b>45</b>

6. A summary of the main differences from budget in 2016/17 is provided below:

<b>ANALYSIS OF VARIATIONS</b>	<b>£000</b>
<b>Increases in expenditure/reduction in income</b>	
Customer First – shortfall in letting income from Follaton House of £40,000 due to a delay in tenants moving in (income target £230,000) and a shortfall in room hire income	52
Customer First – additional salary costs mainly due to temporary resources being used to backfill positions and maternity leave cover	55
Commercial Services - shortfall in recycling credits income (£110,000) due to a reduction in the tonnage of material collected and the market value of materials (income target was £694,000). The Waste Disposal Authority bringing dedicated leaf sweepings into the Devon County Council contract has also had an adverse impact (£35,000).	145
Commercial Services - increase in the salary cost of manual workers due to overtime and agency costs. Due to a combination of factors relating to the winter tonnage increases and pressures on the rate of pay for manual staff. Nationally the wage bill for waste is experiencing rises.	110
Commercial Services – additional salary costs – includes one off costs, to obtain future savings within facilities management	60
Commercial Services - Waste Round review – savings envisaged from a round review were not able to be achieved	40
Commercial Services – shortfall in trade waste income (income target was £754,000)	44
Commercial Services – shortfall in trade waste income for business rated domestic properties (income target was £50,000)	28
Commercial Services - Torr Quarry transfer station extra haulage costs	19
Support Services – additional salary costs	20
Other small variances	79
<b>Reductions in expenditure/additional income</b>	
Commercial Services – additional car parking income (overall income budget of £2.9 million)	(130)
Customer First – additional income from Housing Benefit recoveries of overpayments (£22 million was paid in Housing Benefit payments 16/17)	(52)
Customer First – one-off access agreement income (net of costs)	(34)
Support Services – additional income in legal, design, HR and case management	(79)
Strategy and Commissioning – saving on Members’ travel and printing (£25,000) and income on street naming and numbering (£20,000)	(45)
Financing and Investment – transfers from Earmarked Reserves/ Section 106 Income for regeneration	(212)
Financing and Investment – Land and Investment Properties – unbudgeted income in respect of an easement over Council land	(55)
<b>TOTAL DEFICIT FOR 2016/17</b>	<b>45</b>



The 2016/17 budget for South Hams was £8.75 million but the actual spend was 0.5% higher, providing a deficit of £45,000 as shown above.

## **KEY AREAS TO NOTE FROM THE 2016/17 STATEMENT OF ACCOUNTS**

### **Pension Liability**

1. 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.
2. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2017 of £53.4 million. This compares to £42.5million as at 31 March 2016. The deficit is derived by calculating the pension assets and liabilities at 31 March 2017. See Note 33 for further information.

### **Icelandic Banks**

3. 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 2017, the Council had £22,483 frozen in the Heritable Bank.
4. 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.
5. 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**

6. 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.
7. The Council took a decision to withdraw from the Devon wide Business Rates Pool for 2015/16 and 2016/17, 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.
8. 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. In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals.
9. In 2016/17 a large part of these outstanding appeals have been settled. As a consequence, there has been a reduction in the business rates appeals provision of £27.1 million in 2016/17. Therefore the Business Rates Collection Fund has moved from a deficit position of £26 million in 2015/16 to a surplus position of £581,000 in 2016/17. South Hams District Council's share of the surplus is 40% (£232,000).
10. Monies have been set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years. The balance on this reserve is £4.5 million at 31 March 2017, which reflects the £5.3 million levy payment in 2016/17.

## **Trading Company**

11. 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 2016/17 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2016 to 31 March 2017. The future of Servaco Limited is likely to be reviewed during 2017/18.

## **Borrowing**

12. As at 31 March 2017 the Council had no external borrowing.

## **Capital spending**

13. The Council spent £3.0m on capital projects. The main areas of expenditure were as follows:
- residential renovation grants including disabled facilities grants (£0.7m)
  - purchase of land (£0.5m)
  - scheduled replacement of plant and vehicles (£0.4m)
  - investment in leisure facilities (£0.25m)
  - coastal defence schemes (£0.25m)
  - affordable housing and investments in the community (£0.2m)
  - New roof at an industrial estate (£0.1m) and new Boat Float at Dartmouth (£0.1m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 30).

## **FINANCIAL NEEDS AND RESOURCES**

14. 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.
15. General Fund reserves (which include earmarked reserves) have reduced by £2.4m from the preceding year and stand at £14.8m at 31 March 2017. This reflects the £5.3 million reduction in the Business Rates Retention Reserve (as detailed in 9 and 10 above).
16. The General Fund Balance (un-earmarked reserve) has reduced by £45,000 in 2016/17 and totals £1.765m. Revenue reserves may be used to finance capital or revenue spending plans.
17. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2017 amounts to £4.0m compared to £4.2m at the end of the previous year.

18. 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.
19. 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 £53.4 million at 31 March 2017. 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.
20. 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**

### **Proposal for a Single Council**

21. South Hams and West Devon Councils have a long history of sharing services and following the joint Transformation Programme (T18), the majority of the Councils’ staff are shared. One next step which Councillors are exploring is the formation of a single Council for South Hams and West Devon areas for District services. This proposal would bring the two political structures together to create one single Council for both authorities.
22. Members of both Councils have formed a Joint Steering Group to consider this proposal and while the proposal continues to be worked up it is clear that there is the opportunity to make further savings and generate additional income based on forming a single council from April 2019. In July, we will be asking Members of both Councils to decide whether or not to commence public consultation on the proposal ahead of a submission to Department for Communities and Local Government in the Autumn. If agreed, the Councils propose to undertake consultation through August and September to seek the views of all stakeholders.

### **Other options to secure financial sustainability**

23. Alongside the work to consider a single Council, the Councils are actively investigating other ways in which to ensure their long term financial sustainability. The way in which the Councils commission, design and deliver their front line services is being considered by the Joint Steering Group. This workstream is considering the potential efficiencies that could be achieved through the provision of services through a wholly owned company or through outsourcing. This is in respect of waste and cleansing services, grounds and building maintenance services. Staff are currently undertaking market testing to advise on which options will offer the best value to the Councils.
24. A further proposal being considered by Councillors is the various commissioning options, including in-house options in respect of waste and cleansing services, grounds and building maintenance services. The Councils have been exploring the best options for delivering our front line services such as waste, street cleaning and maintenance. Staff are currently in the process of testing the market to see what options would be available.
25. A third strand of work is to develop and implement a commercial property acquisition strategy. Both Councils have reviewed the criteria to increase the asset base of both Councils, availing themselves of historically low fixed interest borrowing rates and the proposal, if approved, is to acquire commercial properties.
26. The strategy to consider these three distinct but inter-related work streams will help the Councils to generate revenue streams and reduce inefficiencies, thereby contributing to the long term financial sustainability of each Council and enabling them to continue to deliver, and where possible improve, frontline services rather than looking to reduce services in order to deal with budgetary cuts.
27. As the Council works through these ideas, reports will be presented to both Councils who will ultimately make the decision on the future of both Councils and how services will be funded into the future.

#### **'Do It Online – Save Time'**

28. The Council will continue to strive to deliver efficient services that meet the needs of its customers. The Council will do this by improving our use of digital technology to offer more online transactions and make it quicker and easier to find information, request and pay for a service and improve the customer experience.

29. Our new awareness campaign for our digital services offer 'Do it Online – Save Time' will run throughout the year. We will focus on getting things right first time, telling customers what level of service they can expect and then aiming to meet and where possible exceed those expectations. We will develop the use of digital social media to complement existing customer communication to widen our engagement with customers getting information quickly and when it is needed. The reduction of call volumes achieved this year will free up staff to become more proactive in engaging with customers who do not have access to our digital services and will allow us to develop services to meet their needs.

### **Summary**

30. Overall, the Council's finances remain sound, but there are challenges ahead. The financial year 2016/17 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) which the Council has embedded since its introduction in 2014, 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**

31. The Section 151 Officer & Strategic Finance Lead authorised the Statement of Accounts 2016/17 for issue on 21 September 2017. Events taking place after this date are not reflected in the financial statements or notes.

## **ACHIEVEMENTS FOR 2016-17**

The following pages set out the achievements of the Council for 2016-17 by each of the Themes within 'Our Plan: South Hams' which is a single strategic document that sets out the vision, objectives and activities of the Council.

### **HOMES – Enabling homes that meet the needs of all**

<b>Action</b>	<b>16/17 Progress</b>
<b>Implement a housing delivery programme</b>	<b>300 new affordable homes granted planning consent for local people. 11 homes delivered through the village housing initiative in smaller rural locations. An additional £115,000 received through planning agreements to invest in affordable housing. 2 properties built and occupied to meet the specific needs of disabled households. £230,000 allocated for the future delivery of housing projects.</b>
<b>Homeless Strategy</b>	<b>Widely consulted and adopted a 5 year homeless strategy setting out the Council's commitment to tackle the causes of homelessness.</b>
<b>Disabled facility grants</b>	<b>Awarded over £487,000 for 118 projects to facilitate independent living through adaptation of homes including level shower access, stair lifts and rails.</b>
<b>Affordable housing</b>	<b>£1.88 million Community Led Housing funding awarded to encourage future homes in the area. Continue to work closely with community housing groups to deliver additional housing.</b>
<b>Sherford</b>	<b>First phase of development commenced - 313 homes in South Hams approved to date including 63 affordable homes.</b>
<b>ATMOS Project, Totnes</b>	<b>Made a Community Right to Build Order to deliver a mixed-use redevelopment to include 62 affordable homes, 37 retirement homes, commercial, community and cultural space, and enhanced public realm including improved access to the River Dart.</b>



## **ECONOMY – Creating places for enterprise to thrive and business to grow**

<b>Action</b>	<b>16/17 Progress</b>
<b>Clarify and deliver an economic development programme</b>	<b>Agreed a programme for 2016-18 including a funded support package for start-up and growing businesses. Continued sub regional partnership delivery. Business database development and provision of business news bulletins.</b>
<b>South Devon Coastal Local Action Group</b>	<b>Acted as accountable body and supported this initiative to create jobs in the rural economy, 8 projects approved to date worth over £131,000+ investment.</b>
<b>Heart of the South West Growth Deal 3</b>	<b>Further funding granted for targeting the final 5% of premises not benefitting from superfast broadband through partnership working.</b>
<b>Better Business For All Partnership</b>	<b>Achieved a Federation of Small Businesses Award for work to this partnership including provision of advice and support to over 500 businesses during routine food inspections.</b>
<b>Council owned premises</b>	<b>Achieved over 90% occupancy rate for all Council owned commercial premises.</b>
<b>Business units</b>	<b>Planning permission and contractors secured to build commercial units at Dartmouth and Totnes.</b>

## **INFRASTRUCTURE – Securing the services and facilities that meet the needs of our communities**

<b>Action</b>	<b>16/17 Progress</b>
<b>Renew strategic infrastructure delivery plan</b>	<b>Plan prepared in consultation with strategic partners and infrastructure providers which seeks to ensure the timely delivery of: transport, highway infrastructure, education, community facilities and open space / formal play areas. (This plan forms parts of the Joint local Plan process)</b>
<b>Waste review</b>	<b>Started Waste Review by conducting 9 waste review roadshows. Moved over 4,000 households to alternate weekly recycling collections allowing for improved</b>

	recycling services. Also introduced in-cab technology to improve efficiency of service.
Grounds maintenance review	Review carried out to ensure performance improves and that we are in a position to take on additional business when opportunities arise to generate income for the Council.
Street Cleansing	Service improvements and consultation on street cleansing and introduction of mechanical sweepers allowing for cleaner streets.

### COMMUNITIES – Empowering residents to create strong communities

Action	16/17 Progress
Produce Joint Local Plan	Conducted over 30 community engagement events to canvas local views on the proposed Joint Local Plan due to be adopted in late 2017.
Neighbourhood Parish Plan	3 new plans underway and continued support provided to 30 communities already developing plans.
Community reinvestment fund	Over £153,000 awarded to 8 projects for footpath, village hall and play area improvements.
Town and Parish (TAP) Funding	Over £76,000 awarded to 39 projects including air ambulance night landing sites, equipment for community play groups, bicycle storage racks and dementia action groups.
Sustainable Community Locality Fund	Over £59,000 awarded to 130+ community based projects ranging from sports equipment and composters to community celebrations.
Development Management Towns and Parish Meetings	Attendance at 14 parishes/town meetings to foster a better understanding of the planning process.
Developer Forum	Reinstated and held every 3 months, engaged with 30 agents/developers to update on changes in planning process / legislation and problem solving.
BT Payphone Removal Consultation	Coordinated a consultation to ensure affected communities were well briefed to influence the future of payphones in their communities.
Implement a	Review of Partnership working arrangements including

<b>coordinated community support offer</b>	<b>Community Safety Partnership, Citizens Advice and Community &amp; Voluntary Service (CVS)</b>
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**WELLBEING – Supporting positive safe and healthy lifestyles**

<b>Action</b>	<b>16/17 Progress</b>
<b>Salcombe Harbour</b>	<b>Hosted over 5,800 visiting vessels. Facilitated cross-harbour swim for 550 entrants (believed to be biggest event of this type in UK). Co-hosted marine crime awareness and safety events with Police, RNLI and others in Salcombe and Kingsbridge.</b>
<b>Implement public health working group</b>	<b>Group established and focussed on coordinating health and wellbeing projects including Social Prescribing. 2 local GP surgeries engaged to date accessing over £43,000 funding.</b>
<b>Community Safety Partnership</b>	<b>Advised 610 year 8/9 pupils on safe internet use, sexting, consent, grooming and exploitation. Supplied internet safety advice to 44 primary schools. Joined in the Fire Service Phoenix Project. Trained 87 taxi drivers to spot the signs of people trafficking, modern slavery, child sexual exploitation and safeguarding issues. Advised all secondary schools on Community Safety issues.</b>
<b>Junior Life Skills</b>	<b>Worked with 7 partners including the Police, RNLI, Fire Service, BT and Western Power to present workshops to over 800 year 6 students on safety, wellbeing and responsible citizenship.</b>
<b>Complete and implement health and wellbeing procurement</b>	<b>Secured a 25 year contract with Fusion Lifestyle to run Council owned leisure facilities and provide capital improvements of £6.4 million including a new swimming pool at Ivybridge and improvements at Kingsbridge.</b>

**ENVIRONMENT – Protecting, conserving and enhancing our built environment**

<b>Action</b>	<b>16/17 Progress</b>
<b>Support delivery of the agreed improvement programmes for South Devon and Tamar Valley</b>	<b>Management plan priorities delivered and business plan/income generation strategy in development to diversify income sources. Heritage Lottery Funding application complete for the establishment of a Charitable Incorporated Organisation and development of a Business Membership Scheme and volunteering</b>

<b>AONBs</b>	<b>offer.</b>
<b>Major sea defence repair works</b>	<b>£390,000 repair work completed at Beesands and Torcross including 20m trial sea defence offering improved value for money.</b>
<b>Dog fouling</b>	<b>Held roadshows in partnership with the Dogs Trust to raise the importance of responsible dog ownership.</b>
<b>Measures to support design quality</b>	<b>Policy established to encourage high quality design following guidelines requiring layout, materials and greenspace that integrate with the neighbourhood as well as pedestrian, cycling and public transport connectivity to existing facilities and design that promotes safety.</b>

**HERITAGE – Celebrating our past and protecting our heritage for the future**

<b>Action</b>	<b>16/17 Progress</b>
<b>Stowford Mill Site, Ivybridge</b>	<b>Granted planning permission for renovation and redevelopment of this key heritage asset to provide 38 dwellings, 59 apartments (32 later living), 6772m<sup>2</sup> commercial use and 169m<sup>2</sup> community use.</b>
<b>Bovisand</b>	<b>Granted planning permission to include improved public access, heritage interpretation and a new link from quayside to coastal footpath.</b>

**RESOURCES – Promoting energy efficiency and more effective use of our natural resources**

<b>Action</b>	<b>16/17 Progress</b>
<b>Solar panels</b>	<b>Installed on business units in Totnes and Salcombe.</b>
<b>Support community led energy conservation and generation projects</b>	<b>Support for Cosy Devon scheme – Local Energy Action Project signposting residents to free energy efficiency advice.</b>

## PERFORMANCE INDICATORS FOR 2016-17

Throughout the year we have continued to improve performance to meet the needs of our customers. We have systematically reviewed areas of poor performance, streamlined processes, embedded new IT solutions and delivered staff training. As a result we have seen a significant reduction in call volumes, an increase in transactions online and quicker turnaround times for planning, benefits and disabled facility grants applications.

### Corporate Balanced Scorecard

#### Community/Customer

Q1	Q2	Q3	Q4	Yr	
▲	✓	✓	▲	▲	Overall waste recycling rate %
✓	▲	▲	✓	✓	Residual waste per household
●	✓	✓	●	●	Average No. of Missed Bins
●	●	-	-		CST: Average Call Answer Time
▲	▲	-	-		CST: % of enquiries resolved at first point of contact
●	●	▲	▲	●	CST: % of calls answered
●	▲	▲	●	●	CST: % of calls answered in 20 secs

#### Processes

Q1	Q2	Q3	Q4	Yr	% of planning applications determined within time frame
✓	✓	✓	✓	✓	Major(Statutory)
✓	✓	✓	✓	✓	Minor
✓	✓	✓	✓	✓	Other

Q1	Q2	Q3	Q4	Yr	
●	✓	✓	●	●	Avg End to End time Benefits New Claims
▲	✓	✓	✓	✓	Avg End to End time Benefits Change of circumstances

#### T18 Programme

Q1	Q2	Q3	Q4	Yr	
▲	▲	-	-		T18: Programme timescales on track
✓	✓	-	-		T18: Performance vs. Budget
▲	▲	-	-		T18: No. of Processes live
✓	✓	✓	✓	✓	T18: Ratio call/web submissions
-	-	▲	▲	▲	Ratio of benefits web/post submissions (IEG4)

Some measures were replaced during the year as new systems or processes started.

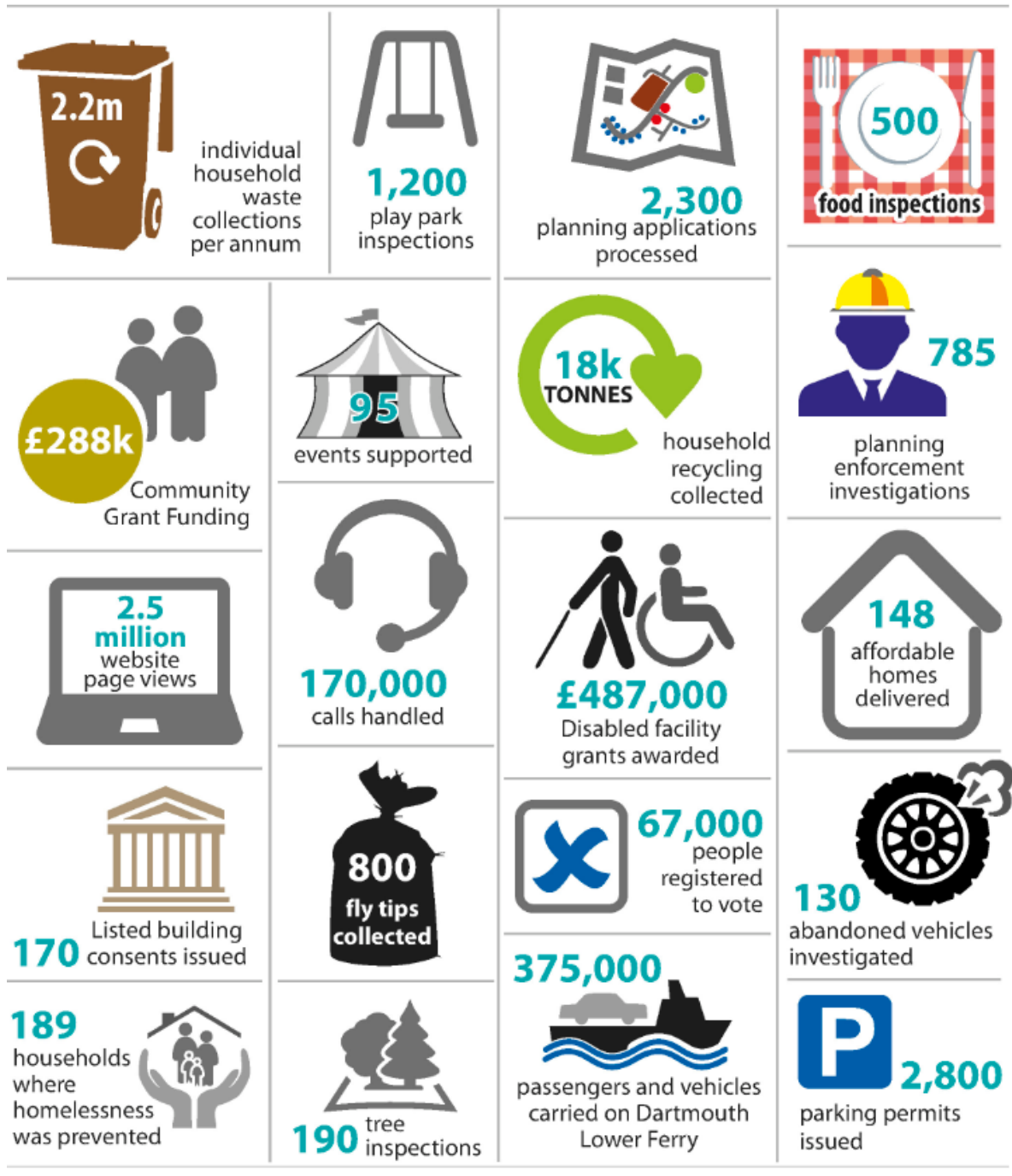
#### Performance

Q1	Q2	Q3	Q4	Yr	
▲	▲	▲	✓	▲	EH: % of nuisance complaints resolved at informal stage
✓	▲	▲	✓	✓	Avg days short term sickness/FTE
✓	●	▲	✓	▲	Complaint response speed

#### Key

●	Below target performance
▲	Narrowly off target, be aware
✓	On or above target

A few things we spent your money on in 2016/17



Performance for the year 2016/17



Council of the Year Award 2016



Housing benefit claims processing times reduced from 42 to 19 days



Online transactions increased by 17%



Missed waste collections performing 50% above target



Minor planning determinations delivered on time improved to 98%



Call volumes decreased by 25%

## 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.

There is a culture of risk ownership and management throughout the Council. Throughout 2016/17, particular focus has been given to health and safety and information security. Risks are logged centrally and are updated regularly. For each risk, the uncertainties are identified, along with the consequences, likelihood of occurrence and strategic impacts that would result. The Council's Senior Leadership Team review the corporate risk log monthly and updates are reported to Elected Members via the Audit Committee on a six monthly basis. Elected Members also have the opportunity to raise concerns with the mitigating actions being taken by officers and can suggest new risks for consideration.



Below is an extract mainly from the latest Risk report to the Audit Committee and from the Council's risk register.

Risk	Impact	Mitigation
<b>Data Protection</b>	Failure to control the appropriate use of data and unauthorised access.	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 Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. All staff have been and new starters will be completing a data protection awareness course via the Council's new eLearning tool.
<b>Service Performance</b>	Any service failure or degradation of service impacts on the customer, which then impacts on all areas of the Council and Members.	Staff focus on getting it right the first time; getting back to people appropriately and more timely responses, and keeping better records. Also management focus on ensuring appropriate resources in the right places.
<b>Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government Policy and/or Income Streams</b>	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. This could make it difficult to achieve a balanced budget.	Robust horizon scanning to monitor changes in Government policy. Senior leaders aware of the risks, cautious approach to budgeting and robust systems of financial control. Council actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring the learning is incorporated into strategic plans. Latest budget reports approved by both Councils in February 2017 after member workshops in October 2016 and the result of the four year Government Finance Settlement being communicated. A joint steering group has been formed to review options for dealing with the budget position and future working. Other initiatives progressing to help meet forecast budget gaps, such as asset investment.

Risk	Impact	Mitigation
<b>Delivery of local plan (Inc. 5 Year Land Supply)</b>	Risk of speculative development without a 5 year land supply. Risk of designation in relation to Development Management & local plan across both Councils.	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 & consultation underway; member engagement ongoing. On course for examination Sept 2017; inspector to respond Summer 17 with issues to take to examination, meaning we can rely on anything not queried.
<b>Business Continuity</b>	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems.	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 - Payroll & Creditors Payments Annual work programme to address critical areas. ICT strategy adopted by both Councils. Going through procurement process for new infrastructure and backup infrastructure.
<b>Procurement</b>	There are a number of contracts to be let by the Council over the next 2 year period which will be in excess of the EU procurement thresholds. These will require specialist input and project teams to ensure best value for money is achieved.	The procurement elements required should be captured and prioritised within the service planning exercise being carried out currently. The service planning process is in progress and Senior Leadership Team (SLT) can ensure that this item is raised, identified and actioned as part of the work stream.

Risk	Impact	Mitigation
<p><b>Emergency Response, e.g. Coastal Erosion/Storm Damage/ Flooding</b></p>	<p>Following an event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources. The risk relates to how best to support dispersed communities.</p>	<p>Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with Devon County Council and Environment Agency to ensure all parties are aware of each other's responsibilities and capacity. Mild Winter 16/17. Torcross / Slapton works now completed. Emergency response plan updated.</p>
<p><b>T18 Transformation Programme (Cost reduction, restructure and process redesign) Benefits Not Delivered</b></p>	<p>Poorly executed delivery could affect quality of customer service; timescales to complete routine tasks and an increase in complaints. Staff morale and reputation can be affected. Failure to deliver sustained benefits from the T18 Programme; Risk of new systems not being fit for purpose during transfer and then for business as usual; Capacity risk once additional resources exhausted.</p>	<p>Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Regular monitoring reports to Members. Considerable engagement with Civica, some compensatory payments for back filling and resourcing from Civica. SLT have looked &amp; deployed alternatives as required. Budget has been monitored &amp; on budget. Transition resources have been recruited to ease pressure, staff re-allocated to look at services for improvements and programme management temporary resources retained (though reduced) to ensure continuity.</p>

Risk	Impact	Mitigation
<p><b>Adherence to Council policies and processes and Government guidelines</b></p>	<p>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 of customers and to manage customer feedback. There is a risk of failure to respond to changes and to recognise external influences such as changes in government policy; risks of losing judicial reviews, appeals and Ombudsman rulings. T18 programme rollout saw service levels reduce but these have now recovered.</p>	<p>Embedding new process within organisation; Transformation Improvement board now in place. Additional resources recruited to ensure less impact on front line services. Internal audit programme in forthcoming year will help provide assurance. Regular Statutory Officers Group meet. Regulation of Investigatory Powers (RIPA) training for key staff. Policies / Key Strategies being reviewed by CoPs with consultation where appropriate, e.g. Homelessness Strategy. Plan to commence measuring customer satisfaction during 17/18. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies.</p>

## ***Section 2***

# ***Core Financial Statements***

## SECTION 2A 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 both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

\*From 2016/17 local authorities are required to report their Cost of Services based on the way in which they operate and manage services. There is no longer a requirement for the service expenditure analysis to be based on the Service Reporting Code of Practice for Local Authorities. This new format of segmental reporting means that the cost of services section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed. The 2015/16 comparatives within net cost of services have been restated to reflect this new reporting format.

2015/16 Restated *			2016/17			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Segment	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
34,392	(29,082)	5,310	Customer First**	32,035	(30,671)	1,364
10,868	(6,922)	3,946	Commercial Services	10,403	(7,166)	3,237
1,687	(795)	892	Strategy and Commissioning	1,814	(973)	841
3,163	(818)	2,345	Support Services	3,188	(1,071)	2,117
523	-	523	Centrally Held Costs	565	(42)	523
27	(512)	(485)	Material Items (Note 2)	358	(125)	233
<b>50,660</b>	<b>(38,129)</b>	<b>12,531</b>	<b>Cost of Services</b>	<b>48,363</b>	<b>(40,048)</b>	<b>8,315</b>
1,715	(37)	1,678	Other operating expenditure (Note 9)	1,895	(142)	1,753
1,557	(720)	837	Financing and investment income and expenditure (Note 10)	1,536	(637)	899
21,907	(33,677)	(11,770)	Taxation and non-specific grant Income (Note 11)	17,048	(35,167)	(18,119)
<b>75,839</b>	<b>(72,563)</b>	<b>3,276</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>68,842</b>	<b>(75,994)</b>	<b>(7,152)</b>
		(214)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(1,432)
		(6,605)	Remeasurements of the net defined benefit liability			10,111
		<b>(6,819)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>8,679</b>
		<b>(3,543)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>1,527</b>

\*\*The reduction in net expenditure in Customer First mainly reflects the receipt of the Community Housing Fund grant in 2016/17 of £1.9 million. In addition there have been various changes to accounting adjustments in respect of pensions (IAS19) and capital between 2015/16 and 2016/17. These are shown in the Expenditure and Funding Analysis in Section 2B and further broken down in Note 4 - Note to the Expenditure and Funding Analysis.

## SECTION 2B EXPENDITURE AND FUNDING ANALYSIS

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the authority (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Authority's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement in Section 2A.

<b>2016-2017</b>	<b>Net Expenditure Chargeable to the General Fund £000</b>	<b>Adjustments between Funding and Accounting Basis (note 4) £000</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement £000</b>
Customer First	505	859	1,364
Commercial Services	2,382	855	3,237
Strategy and Commissioning	878	(37)	841
Support Services	2,074	43	2,117
Centrally Held Costs	523	-	523
Material Items	233	-	233
<b>Net Cost of Services</b>	<b>6,595</b>	<b>1,720</b>	<b>8,315</b>
Other income and expenditure	(4,161)	(11,306)	(15,467)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>2,434</b>	<b>(9,586)</b>	<b>(7,152)</b>

	<b>General Fund Balance £000</b>	<b>Earmarked Reserves £000</b>	<b>Total General Fund Reserves £000</b>
<b>Opening Balance at 31 March 2016</b>	<b>(1,810)</b>	<b>(15,463)</b>	<b>(17,273)</b>
(Increase)/decrease in year	45	2,389	2,434
<b>Closing Balance at 31 March 2017</b>	<b>(1,765)</b>	<b>(13,074)</b>	<b>(14,839)</b>

<b>2015-2016</b>	<b>Net Expenditure Chargeable to the General Fund £000</b>	<b>Adjustments between Funding and Accounting Basis (note 4) £000</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement £000</b>
Customer First	2,051	3,259	5,310
Commercial Services	2,193	1,753	3,946
Strategy and Commissioning	711	181	892
Support Services	2,313	32	2,345
Centrally Held Costs	523	-	523
Material Items	(485)	-	(485)
<b>Net Cost of Services</b>	<b>7,306</b>	<b>5,225</b>	<b>12,531</b>
Other income and expenditure	(16,672)	7,417	(9,255)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(9,366)</b>	<b>12,642</b>	<b>3,276</b>

	<b>General Fund Balance £000</b>	<b>Earmarked Reserves £000</b>	<b>Total General Fund Reserves £000</b>
<b>Opening Balance at 31 March 2015</b>	<b>(1,741)</b>	<b>(6,166)</b>	<b>(7,907)</b>
(Increase)/decrease in year	(69)	(9,297)	(9,366)
<b>Closing Balance at 31 March 2016</b>	<b>(1,810)</b>	<b>(15,463)</b>	<b>(17,273)</b>



## SECTION 2C MOVEMENT IN RESERVES

### Movement in Reserves Statement

This statement shows the movement from the start of the year to the end 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 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Increase/Decrease in Year line shows the statutory General Fund Balance movements in the year following these adjustments.

<b>2016/17</b>	General Fund Balance £000	Earmarked Reserves £000	<b>Total General Fund Reserves £000</b>	Capital Receipts Reserve £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Authority Reserves 2016/17 £000</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>1,810</b>	<b>15,463</b>	<b>17,273</b>	<b>3,779</b>	<b>377</b>	<b>21,429</b>	<b>21,937</b>	<b>43,366</b>
<b>Movement in Reserves during 2016/17</b>								
Total Comprehensive Income and Expenditure	7,152	-	<b>7,152</b>	-	-	<b>7,152</b>	(8,679)	<b>(1,527)</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	(9,586)	-	<b>(9,586)</b>	(96)	(33)	<b>(9,715)</b>	9,715	-
Transfers to/from Earmarked Reserves (Note 8)	2,389	(2,389)	-	-	-	-	-	-
<b>Increase/ (Decrease) in Year</b>	<b>(45)</b>	<b>(2,389)</b>	<b>(2,434)</b>	<b>(96)</b>	<b>(33)</b>	<b>(2,563)</b>	<b>1,036</b>	<b>(1,527)</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>1,765</b>	<b>13,074</b>	<b>14,839</b>	<b>3,683</b>	<b>344</b>	<b>18,866</b>	<b>22,973</b>	<b>41,839</b>

**SECTION 2C MOVEMENT IN RESERVES**

<b>2015/16 Comparatives</b>	General Fund Balance £000	Earmarked General Fund Reserves £000	<b>Total General Fund Reserves £000</b>	Capital Receipts Reserve £000	Capital Grants Unapplied £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Authority Reserves 2015/16 £00</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>1,741</b>	<b>6,166</b>	<b>7,907</b>	<b>4,463</b>	<b>348</b>	<b>12,718</b>	<b>27,105</b>	<b>39,823</b>
<b>Movement in Reserves during 2015/16</b>								
Total Comprehensive Income and Expenditure	(3,276)	-	<b>(3,276)</b>	-	-	<b>(3,276)</b>	6,819	<b>3,543</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	12,642	-	<b>12,642</b>	(684)	29	<b>11,987</b>	(11,987)	-
Transfers to/from Earmarked Reserves (Note 8)	(9,297)	9,297	-	-	-	-	-	-
<b>Increase/ (Decrease) in Year</b>	<b>69</b>	<b>9,297</b>	<b>9,366</b>	<b>(684)</b>	<b>29</b>	<b>8,711</b>	<b>(5,168)</b>	<b>3,543</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>1,810</b>	<b>15,463</b>	<b>17,273</b>	<b>3,779</b>	<b>377</b>	<b>21,429</b>	<b>21,937</b>	<b>43,366</b>

## SECTION 2D BALANCE SHEET

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'.

<b>31 March 2016 £000</b>		<b>Notes</b>	<b>31 March 2017 £000</b>
73,991	Property, Plant and Equipment	12	75,392
386	Investment Property		381
208	Intangible Assets		240
188	Long Term Debtors	14	76
<b>74,773</b>	<b>Long Term Assets</b>		<b>76,089</b>
15,000	Short Term Investments	13	17,000
66	Inventories		79
15,705	Short Term Debtors	14	6,637
2,237	Cash and Cash Equivalents	15	12,852
<b>33,008</b>	<b>Current Assets</b>		<b>36,568</b>
(6,210)	Short Term Creditors	16	(12,192)
(204)	Short Term Revenue Grants in Advance	28	(24)
(11,653)	Provisions	17	(759)
<b>(18,067)</b>	<b>Current Liabilities</b>		<b>(12,975)</b>
(19)	Long Term Creditors	16	(26)
(3,743)	Long Term Revenue Grants in Advance - Section 106 Deposits	28	(4,288)
(42,454)	Pensions Liability	33	(53,397)
(132)	Capital Grants - Receipts in Advance	28	(132)
<b>(46,348)</b>	<b>Long Term Liabilities</b>		<b>(57,843)</b>
<b>43,366</b>	<b>Net Assets</b>		<b>41,839</b>
21,429	Usable Reserves	18	18,866
21,937	Unusable Reserves	19	22,973
<b>43,366</b>	<b>Total Reserves</b>		<b>41,839</b>

The notes on pages 35 to 104 form part of these financial statements.

*The unaudited accounts were issued on 30 June 2017. The audited accounts were issued on 21 September 2017.*

## SECTION 2E 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.

<b>2015/16 £000</b>		<b>2016/17 £000</b>
<b>3,276</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>(7,152)</b>
3,563	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 20)	(4,545)
1,193	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 21)	1,700
<b>8,032</b>	<b>Net cash outflows/ (inflow) from Operating Activities</b>	<b>(9,997)</b>
(4,852)	Net increase / ( decrease) in Investing Activities (Note 22)	2,137
(380)	Net cash outflow / (inflow) from Financing Activities (Note 23)	(2,755)
<b>2,800</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(10,615)</b>
5,037	Cash and cash equivalents at the beginning of the reporting period	2,237
2,237	Cash and cash equivalents at the end of the reporting period (Note 15)	12,852

***Section 3***

***Notes to the***

***Financial Statements***

## **SECTION 3. NOTES TO THE ACCOUNTS**

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### SECTION 3. NOTES TO THE ACCOUNTS

#### 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 2017 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 £159,000 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 2017, the Authority had a balance of Sundry Debtors of £0.97million. A review of significant balances suggested that an impairment for doubtful debts of 12.5% (£121,000) 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 £6,000 on the Council's finances.



**SECTION 3. NOTES TO THE ACCOUNTS**

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
Pensions Liability	<p>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.</p> <p>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.</p> <p>The Pensions Fund’s Actuary has provided updated figures for the year based on the last valuation in 2016. This valuation is based upon cashflow and assets values as at 28 February 2017. Previously cashflow and asset values were determined as at 31 March but the date has been brought forward to facilitate earlier completion of accounts which commences for the 2017/18 Statement of Accounts.</p>	<p>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 £1.4 million.</p> <p>The assumptions interact in complex ways. For example, in 2016/17, the Authority’s actuaries advised that the pension liability has increased by £28 million as a result of a change in “financial assumptions”.</p> <p>Please refer to Note 33 for further information about the assumptions used by the actuaries.</p>

## SECTION 3. NOTES TO THE ACCOUNTS

### 2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following material item has been included on the face of the Comprehensive Income and Expenditure Statement (CIES) since 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.

Transformation Programme (T18) Investment Costs	2015/16			2016/17		
	Direct £000	Recharges £000	Total £000	Direct £000	Recharges £000	Total £000
<b>GROSS REVENUE EXPENDITURE</b>						
ICT technology, implementation and workstream development	715	11	726	-	-	-
ICT workstation costs and infrastructure	109	5	114	-	-	-
Training	86	2	88	-	-	-
Accommodation	8	-	8	-	-	-
Implementation and design of the future operating model	2	-	2	140	-	140
Redundancy and Pension Strain payments	370	-	370	559	3	562
Pension Strain (capitalised cost)	344	-	344	-	-	-
See <b>Note a</b> below Pension Strain(capitalised cost reversal)	(1,625)	-	(1,625)	(344)	-	(344)
<b>Sub Total</b>	<b>9</b>	<b>18</b>	<b>27</b>	<b>355</b>	<b>3</b>	<b>358</b>
<b>GROSS REVENUE INCOME</b>						
Shared Service Recharge to West Devon BC	-	(512)	(512)	-	(125)	(125)
<b>Sub Total</b>	<b>-</b>	<b>(512)</b>	<b>(512)</b>	<b>-</b>	<b>(125)</b>	<b>(125)</b>
<b>NET REVENUE EXPENDITURE/ (INCOME)</b> (as shown in the CIES)	<b>9</b>	<b>(494)</b>	<b>(485)</b>	<b>355</b>	<b>(122)</b>	<b>233</b>

**Note a:** In 2015/16 the Council made an adjustment to the pension fund liability of £344,000 in relation to timing differences where these figures had not been recognised in the Actuaries Pension Statement. In 2016/17, these figures have been recognised and included within the Councils IAS19 adjustments, therefore the prior year entries have been reversed.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2016/17 was approved for issue by the Section 151 Officer & Strategic Finance Lead on 30 June 2017. The Statement of Accounts were then reviewed by the Audit Committee on 20 July 2017 and the audited accounts were authorised for issue on 21 September 2017. This is also the date up to which events after the reporting period have been considered. There are no events which took place after 31 March 2017 which require disclosure.

#### 4. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note explains the main adjustments from the net expenditure chargeable to the general fund balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement (CIES).

<b>Adjustments between Funding and Accounting Basis</b>				
<b>2016/17</b>	<b>Adjustments for capital purposes</b>	<b>Net change for the pensions adjustments</b>	<b>Other Differences</b>	<b>Total adjustments</b>
	<b>(Note 1)</b>	<b>(Note 2)</b>	<b>(Note 3)</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Customer First	1,029	(170)	-	<b>859</b>
Commercial Services	976	(121)	-	<b>855</b>
Strategy and Commissioning	4	(41)	-	<b>(37)</b>
Support Services	55	(17)	5	<b>43</b>
<b>Net Cost of Services</b>	<b>2,064</b>	<b>(349)</b>	<b>5</b>	<b>1,720</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(1,929)</b>	<b>1,181</b>	<b>(10,558)</b>	<b>(11,306)</b>
<b>Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES</b>	<b>135</b>	<b>832</b>	<b>(10,553)</b>	<b>(9,586)</b>

<b>Adjustments between Funding and Accounting Basis</b>				
<b>2015/16</b>	<b>Adjustments for capital purposes</b>	<b>Net change for the pensions adjustments</b>	<b>Other Differences</b>	<b>Total adjustments</b>
	<b>(Note 1)</b>	<b>(Note 2)</b>	<b>(Note 3)</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Customer First	2,297	962	-	<b>3,259</b>
Commercial Services	758	995	-	<b>1,753</b>
Strategy and Commissioning	4	177	-	<b>181</b>
Support Services	43	2	(13)	<b>32</b>
<b>Net Cost of Services</b>	<b>3,102</b>	<b>2,136</b>	<b>(13)</b>	<b>5,225</b>
<b>Other income and expenditure from the Expenditure &amp; Funding Analysis</b>	<b>(3,086)</b>	<b>252</b>	<b>10,251</b>	<b>7,417</b>
<b>Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES</b>	<b>16</b>	<b>2,388</b>	<b>10,238</b>	<b>12,642</b>

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **Note 1: Adjustments for Capital Purposes**

Adjustments for capital purposes reflect:

**For services** this column adds in depreciation and impairment and adjusts for revenue expenditure funded from capital under statute.

**Other income and expenditure from the Expenditure and Funding Analysis** – this adjusts for statutory charges for capital financing and other capital contributions are deducted. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written-off.

### **Note 2: Net Change for the Pensions Adjustments**

Net changes for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

**For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

**For other income and expenditure from the Expenditure and Funding Analysis** – the net interest on the defined benefit liability is charged to the CIES.

### **Note 3: Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

**For services** reflects the change in the annual leave accrual when compared with the previous year.

**For other income and expenditure from the Expenditure and Funding Analysis** represents the timing difference between what is chargeable under statutory regulations for council tax and Business Rates that was projected to be received at the start of the financial year, and the income recognised under generally accepted accounting practices.

## SECTION 3. NOTES TO THE ACCOUNTS

### 5. SEGMENT REPORTING

The net expenditure figures in the Expenditure and Funding Analysis include the following particular amounts of income and expenditure:

<b>2016/17</b>	<b>Customer First</b>	<b>Commercial Services</b>	<b>Strategy and Commissioning</b>	<b>Support Services</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>					
Housing Benefit Payments	21,412	-	-	-	<b>21,412</b>
Leisure Contract Payments	609	-	-	-	<b>609</b>
Depreciation	1,390	901	4	3	<b>2,298</b>
<b>Income</b>					
Housing Benefit Subsidy	(21,298)	-	-	-	<b>(21,298)</b>
Dartmouth Lower Ferry income	-	(833)	-	-	<b>(833)</b>
Car Parking Income	-	(2,109)	-	-	<b>(2,109)</b>
Income from other external sources	(1,417)	(578)	-	-	<b>(1,995)</b>
<b>2015/16 comparatives</b>					
<b>Expenditure</b>					
Housing Benefit Payments	21,965	-	-	-	<b>21,965</b>
Leisure Contract Payments	675	-	-	-	<b>675</b>
Depreciation	1,290	825	2	1	<b>2,118</b>
<b>Income</b>					
Housing Benefit Subsidy	(21,867)	-	-	-	<b>(21,867)</b>
Dartmouth Lower Ferry income	-	(826)	-	-	<b>(826)</b>
Car Parking Income	-	(2,052)	-	-	<b>(2,052)</b>
Income from other external sources	(1,594)	(594)	-	-	<b>(2,188)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 6. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Expenditure and Income Analysed by Nature note shows the amounts that make up the surplus or deficit on the provision of services on the CIES, but here they are categorised by nature instead of by service segment.

<b>Expenditure and Income Analysed by Nature</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>
Employee Benefits Expenses	15,054	14,221
Other Service Expenses	31,974	31,211
Depreciation, Amortisation and Impairment	3,691	2,992
Interest Payments	1	1
Pension Fund Administration Expenses	33	50
Net Interest on the net defined benefit liability	1,499	1,476
<b>Total Expenditure</b>	<b>52,252</b>	<b>49,951</b>
Fees, Charges and Other Service Income	(13,211)	(13,342)
Interest and Investment Income	(221)	(149)
Income from Council Tax and Business Rates*	(5,623)	(11,604)
Revenue Grants and Contributions	(29,378)	(31,264)
Capital Grants and Contributions	(126)	(210)
(Gains)/losses on disposal of non-current assets	(37)	(142)
Other Income	(380)	(392)
<b>Total Income</b>	<b>(48,976)</b>	<b>(57,103)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>3,276</b>	<b>(7,152)</b>

\*The figure for Council Tax and Business Rates in this statement is shown net of expenditure (precepts to other bodies). The expenditure detail is shown on the face of the Comprehensive Income and Expenditure Statement.

## SECTION 3. NOTES TO THE ACCOUNTS

### 7. 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.

2016/17	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</b>				
Charges for depreciation and impairment of non-current assets	2,298			(2,298)
Revaluation losses/(gains) on Property Plant and Equipment	(448)			448
Movements in the market value of Investment Properties	5			(5)
Amortisation of intangible assets	64			(64)
Capital grants and contributions applied	(1,133)			1,133
Revenue expenditure funded from capital under statute	1,073			(1,073)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	35			(35)
Repayment of mortgage and parish loans		2		(2)
<b>Insertion of items not debited or credited to the CIES:</b>				
Capital expenditure charged against the General Fund	(1,192)			1,192
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Application of grants to capital financing transferred to the CAA			(33)	33

### SECTION 3. NOTES TO THE ACCOUNTS

2016/17	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income And Expenditure Statement	(175)	175		-
Transfer of unattached capital receipts	(392)	392		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(665)		665
Repayment of mortgage and parish loans				
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 33)	2,892			(2,892)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,060)			2,060
<b>Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:</b>				
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	106			(106)
<b>Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:</b>				
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	(10,664)			10,664
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
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	5			(5)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2016/17</b>	<b>(9,586)</b>	<b>(96)</b>	<b>(33)</b>	<b>9,715</b>



### SECTION 3. NOTES TO THE ACCOUNTS

2015/16 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<b><i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i></b>				
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)
<b><i>Insertion of items not debited or credited to the CIES:</i></b>				
Capital expenditure charged against the General Fund	(2,506)			2,506
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Application of grants to capital financing transferred to the CAA	(140)		140	-
Transfer of capital grants to revenue	111		(111)	-

### SECTION 3. NOTES TO THE ACCOUNTS

2015/16 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
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)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 33)	3,943			(3,943)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,555)			1,555
<b>Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:</b>				
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
<b>Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:</b>				
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)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
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
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2015/16</b>	<b>12,642</b>	<b>(684)</b>	<b>29</b>	<b>(11,987)</b>

### 8. 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 2016/17. The purpose of the largest earmarked reserves are shown below:

### **SECTION 3. NOTES TO THE ACCOUNTS**

**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.

**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.

**Affordable Housing** – This reserve helps to support the funding of affordable housing.

**16/17 Budget Surplus Contingency** – This reserve was created from a one off surplus from the 2016/17 Budget process.

**Community Housing Fund** – This reserve was set up to hold the Community Housing Fund Grant. We are working on developing a community housing initiative, which is designed to help local residents to determine and deliver appropriate and affordable housing for their communities.

The table below shows the earmarked reserve balances at 31 March 2017 and the movement during 2016/17.

### SECTION 3. NOTES TO THE ACCOUNTS

2016/17	Balance at 31 March 2016 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2017 £000
<b>EARMARKED RESERVES</b>				
<b>General Fund</b>				
Affordable Housing	540	-	230	770
Community Parks and Open Spaces	98	(17)	16	97
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	420	(72)	55	403
Members Sustainable Community	45	(4)	-	41
Marine Infrastructure Reserve	47	-	47	94
Land and Development	226	(76)	55	205
Ferry Repairs and Renewals	313	-	87	400
Economic Initiatives	98	(21)	-	77
Vehicles and Plant Renewals	318	(370)	541	489
Pay and Display Equipment	61	-	20	81
On-Street Parking	44	-	-	44
Print Equipment	8	(8)	-	-
ICT Development	195	(81)	8	122
Sustainable Waste Management	3	-	-	3
District Elections	48	-	10	58
Beach Safety	14	-	-	14
Planning Policy & Major Developments	331	(184)	-	147
Building Control	395	(31)	72	436
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	368	(130)	78	316
Capital Programme	1,089	(300)	327	1,116
New Homes Bonus	480	(2,086)	2,080	474
Renovation Grant Reserve	7	-	-	7
Business Rates Retention	9,916	(5,389)	-	4,527
T18 Investment Reserve	70	(70)	-	-
Homelessness Prevention Reserve	25	-	-	25
Strategic Change	-	(219)	219	-
16/17 Budget Surplus Contingency	-	(209)	768	559
Innovation Fund (Invest to Earn)	-	(498)	777	279
Community Housing Fund	-	-	1,881	1,881
<b>Sub Total</b>	<b>15,197</b>	<b>(9,864)</b>	<b>7,370</b>	<b>12,703</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	68	-	62	130
Harbour Renewals	58	(8)	35	85
General Reserve	140	(30)	46	156
<b>Sub Total</b>	<b>266</b>	<b>(38)</b>	<b>143</b>	<b>371</b>
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>15,463</b>	<b>(9,902)</b>	<b>7,513</b>	<b>13,074</b>

### SECTION 3. NOTES TO THE ACCOUNTS

<b>2015/16 Comparatives</b>	<b>Balance at 31 March 2015 £000</b>	<b>Transfers Out £000</b>	<b>Transfers In £000</b>	<b>Balance at 31 March 2016 £000</b>
<b>EARMARKED RESERVES</b>				
<b>General Fund</b>				
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	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
Section106 agreements (no conditions)	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	-
<b>Sub Total</b>	<b>5,827</b>	<b>(6,586)</b>	<b>15,956</b>	<b>15,197</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	6	-	62	68
Harbour Renewals	130	(102)	30	58
General Reserve	203	(82)	19	140
<b>Sub Total</b>	<b>339</b>	<b>(184)</b>	<b>111</b>	<b>266</b>
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>6,166</b>	<b>(6,770)</b>	<b>16,067</b>	<b>15,463</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 9. OTHER OPERATING EXPENDITURE

2015/16 £000		2016/17 £000
1,682	Parish council precepts	1,845
(37)	(Gains)/losses on the disposal of non-current assets	(142)
33	Pension administration expenses	50
<b>1,678</b>	<b>Total</b>	<b>1,753</b>

### 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2015/16 £000		2016/17 £000
1	Interest payable and similar charges	1
(155)	Interest receivable and similar income	(134)
(380)	Other investment income	(392)
(50)	Investment (gains)/ losses	-
1,499	Net interest on the net defined benefit liability	1,476
(78)	Investment properties	(52)
<b>837</b>	<b>Total</b>	<b>899</b>

### 11. TAXATION AND NON SPECIFIC GRANT INCOME

2015/16 £000		2016/17 £000
	Council Tax	
(7,005)	• Income	(7,411)
(7)	• Collection Fund adjustment	106
(100)	• Collection Fund - distribution of surplus	(210)
112	• Support grant to parishes	102
	Business Rates	
(12,081)	• Income	(12,212)
11,256	• Tariff	11,350
17	• Pooling gain	-
(9,862)	• Safety net payment	-
-	• Levy payment	5,257
10,365	• Transfer of Collection Fund deficit/(surplus)	(10,431)
	Non ring - fenced Government grants :	
(1,176)	• Small Business Rate Relief Grant	(1,164)
(1,412)	• Revenue Support Grant	(754)
(1,693)	• New Homes Bonus Grant	(2,080)
(58)	• Council Tax Freeze Grant	-
-	• Rural Services Delivery Grant	(406)
-	• Transition Grant	(56)
(126)	Capital grants and contributions	(210)
<b>(11,770)</b>	<b>Total</b>	<b>(18,119)</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 12. PROPERTY, PLANT AND EQUIPMENT

#### Movements in 2016/17:

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>						
<b>At 1 April 2016</b>	<b>65,253</b>	<b>9,119</b>	<b>9,293</b>	<b>737</b>	<b>25</b>	<b>84,427</b>
Additions	643	461	429	-	320	1,853
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	582	-	-	-	-	582
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	265	-	-	-	-	265
Derecognition – disposals	(36)	(143)	-	-	-	(179)
<b>At 31 March 2017</b>	<b>66,707</b>	<b>9,437</b>	<b>9,722</b>	<b>737</b>	<b>345</b>	<b>86,948</b>
<b>Accumulated Depreciation and Impairment at 1 April 2016</b>	<b>2,943</b>	<b>5,031</b>	<b>2,462</b>	<b>-</b>	<b>-</b>	<b>10,436</b>
Charge for 2016/17	1,178	759	360	-	-	2,297
Depreciation written out to the Revaluation Reserve	(849)	-	-	-	-	(849)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(184)	(141)	-	-	-	(325)
Derecognition - disposals	(3)	-	-	-	-	(3)
<b>At 31 March 2017</b>	<b>3,085</b>	<b>5,649</b>	<b>2,822</b>	<b>-</b>	<b>-</b>	<b>11,556</b>
<b>Balance Sheet amount at 31 March 2017</b>	<b>63,622</b>	<b>3,788</b>	<b>6,900</b>	<b>737</b>	<b>345</b>	<b>75,392</b>
<b>Balance Sheet amount at 31 March 2016</b>	<b>62,310</b>	<b>4,088</b>	<b>6,831</b>	<b>737</b>	<b>25</b>	<b>73,991</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### Comparative Movements in 2015/16:

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>						
<b>At 1 April 2015</b>	<b>64,829</b>	<b>8,722</b>	<b>9,113</b>	<b>737</b>	-	<b>83,401</b>
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)
<b>At 31 March 2016</b>	<b>65,253</b>	<b>9,119</b>	<b>9,293</b>	<b>737</b>	<b>25</b>	<b>84,427</b>
<b>Accumulated Depreciation and Impairment at 1 April 2015</b>	<b>2,204</b>	<b>5,904</b>	<b>2,115</b>	-	-	<b>10,223</b>
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)
<b>At 31 March 2016</b>	<b>2,943</b>	<b>5,031</b>	<b>2,462</b>	-	-	<b>10,436</b>
<b>Balance Sheet amount at 31 March 2016</b>	<b>62,310</b>	<b>4,088</b>	<b>6,831</b>	<b>737</b>	<b>25</b>	<b>73,991</b>
<b>Balance Sheet amount at 31 March 2015</b>	<b>62,625</b>	<b>2,818</b>	<b>6,998</b>	<b>737</b>	-	<b>73,178</b>



## **SECTION 3. NOTES TO THE ACCOUNTS**

### **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 2017 the Authority has entered into the following contracts for the construction or enhancement of Property, Plant and Equipment. These commitments relate to:

- New Units, Burke Road, Totnes £600,000
- New Units, Admiral Court, Dartmouth £700,000
- Leisure Centre investment £6.7 million.

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.

### **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 36.

### SECTION 3. NOTES TO THE ACCOUNTS

	<b>Land and buildings £000</b>	<b>Vehicles, plant furniture &amp; equipment £000</b>	<b>Total £000</b>
<b>Valued at historical cost</b>	-	3,788	3,788
<b>Valued at current value in:</b>			
2016/2017*	22,727	-	22,727
2015/2016	24,845	-	24,845
2014/2015	15,112	-	15,112
2013/2014	-	-	-
2012/2013	938	-	938
<b>Total</b>	<b>63,622</b>	<b>3,788</b>	<b>67,410</b>

\*The figure for 2016/17 includes a purchase of land in 2016/17 for £473,000.

#### 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.

### 13. 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

### SECTION 3. NOTES TO THE ACCOUNTS

#### Derivatives

- swaps
- forwards
- options

The carrying amount and fair values for investments at 31 March 2017 are shown in the following table:

<b>Investment Type</b>	<b>Carrying Amount (net of interest)</b>	<b>Interest due at year end</b>	<b>Gross carrying Amount</b>	<b>Fair Value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Short term</b>	17,000	25	17,025	17,031

#### Heritable Bank

At the 31 March 2017 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.

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.

## SECTION 3. NOTES TO THE ACCOUNTS

### Summary of Financial Instruments

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

	Long-term		Current	
	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000
<b>Cash and cash equivalents</b>	-	-	2,237	12,852
<b>Investments</b>	-	-	15,000	17,000
<b>Debtors</b>				
Loans and receivables	188	76	-	-
Financial assets carried at contract amount	-	-	4,032	3,664
<b>Total Debtors</b>	<b>188</b>	<b>76</b>	<b>4,032</b>	<b>3,664</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	(19)	(26)	-	-
Financial liabilities carried at contract amount	-	-	(2,188)	(2,866)
<b>Total Creditors</b>	<b>(19)</b>	<b>(26)</b>	<b>(2,188)</b>	<b>(2,866)</b>

### 14. DEBTORS

31.3.2016 £000		31.3.2017 £000
	<b>Short Term</b>	
407	Central Government bodies*	669
2,082	Other Local authorities*	1,965
	Other debtors	
407	Council Tax	568
10,067	Business Rates**	799
2,742	Other entities and individuals*	2,636
<b>15,705</b>	<b>Total</b>	<b>6,637</b>
	<b>Long Term</b>	
183	Local Authorities	73
5	Other entities and individuals	3
<b>188</b>	<b>Total</b>	<b>76</b>

\* 2015/16 short term debtors have been restated to reclassify capital accruals under the correct headings. Previously capital accruals were all shown under 'Other entities and individuals.'

\*\* The Business Rates debtor for 2015/16 includes the safety net payment due from Central Government due to the high level of the appeals provision in 2015/16.

## SECTION 3. NOTES TO THE ACCOUNTS

### 15. CASH AND CASH EQUIVALENTS

31.3.2016 £000		31.3.2017 £000
(613)	Cash held by the Authority	677
2,850	Money Market Funds	12,175
<b>2,237</b>	<b>Total Cash and Cash Equivalents</b>	<b>12,852</b>

### 16. CREDITORS

31.3.2016 £000		31.3.2017 £000
	<b>Short Term</b>	
(369)	Central Government bodies*	(519)
(719)	Other local authorities*	(1,543)
	Other Creditors	
(964)	Council Tax	(72)
(1,518)	Business Rates**	(6,952)
(2,640)	Other entities and individuals *	(3,106)
<b>(6,210)</b>	<b>Total</b>	<b>(12,192)</b>
	<b>Long Term</b>	
(9)	Local Authorities	(4)
(10)	Other entities and individuals	(22)
<b>(19)</b>	<b>Total</b>	<b>(26)</b>

\* 2015/16 short term creditors have been restated to reclassify capital accruals under the correct headings. Previously capital accruals were all shown under 'Other entities and individuals.'

\*\* The Business Rates creditor for 2016/17 includes the levy payment due to Central Government for the financial year as explained in the Narrative Statement.

### 17. 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 2016/17 or 2015/16. The breakdown of the 2016/17 provision is shown in the following table:

### SECTION 3. NOTES TO THE ACCOUNTS

	<b>Land Charges</b>	<b>Business Rates Appeals</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2016</b>	<b>(41)</b>	<b>(11,612)</b>	<b>(11,653)</b>
Provisions made in year	-	(135)	<b>(135)</b>
Amounts used in year	26	10,988	<b>11,014</b>
Unused amounts reversed in year	15	-	<b>15</b>
<b>Balance at 31 March 2017</b>	<b>-</b>	<b>(759)</b>	<b>(759)</b>

#### **Short term – Land charges:**

The land charges case has now been resolved and the associated costs have been settled in 2016/17.

#### **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 2016/17 there has been a £27.1 million decrease in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £10.8 million). This is further explained in the Narrative Statement.

### **18. USABLE RESERVES**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2C. 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 and 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.

## SECTION 3. NOTES TO THE ACCOUNTS

### 19. UNUSABLE RESERVES

<b>31.3.2016 £000</b>		<b>31.3.2017 £000</b>
24,318	Revaluation Reserve	25,468
50,370	Capital Adjustment Account	50,646
(42,454)	Pensions Reserve	(53,397)
255	Council Tax Collection Fund Adjustment Account	149
(10,432)	Business Rates Collection Fund Adjustment Account*	232
(120)	Accumulated Absences Account	(125)
<b>21,937</b>	<b>Total Unusable Reserves</b>	<b>22,973</b>

\*See further explanatory note on the Business Rates Collection Fund Adjustment Account regarding the movement from 2015/16 to 2016/17.

#### 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.

### SECTION 3. NOTES TO THE ACCOUNTS

31.3.2016 £000	31.3.2016 £000	Revaluation Reserve	31.3.2017 £000	31.3.2017 £000
	<b>24,307</b>	<b>Balance at 1 April</b>		<b>24,318</b>
2,022		Upward revaluation of assets	2,544	
(1,808)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(1,112)	
	<b>214</b>	<b>Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		<b>1,432</b>
(203)		Difference between fair value depreciation and historical cost depreciation	(263)	
=		Accumulated gains on assets sold or scrapped	(19)	
	<b>(203)</b>	<b>Amount written off to the Capital Adjustment Account</b>		<b>(282)</b>
	<b>24,318</b>	<b>Balance at 31 March</b>		<b>25,468</b>

#### 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.



**SECTION 3. NOTES TO THE ACCOUNTS**

2015/16 £000	2015/16 £000	Capital Adjustment Account	2016/17 £000	2016/17 £000
	<b>49,528</b>	<b>Balance at 1 April</b>		<b>50,370</b>
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,118)		▪ Charges for depreciation of non-current assets	(2,298)	
100		▪ Revaluation losses on Property, Plant and Equipment	448	
(6)		▪ Revaluation gains/(losses) on Investment Properties	(5)	
(53)		▪ Amortisation of intangible assets	(64)	
(1,613)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,073)	
(26)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(35)	
	<b>(3,716)</b>	<b>Total</b>		<b>(3,027)</b>
-		Amounts of Revaluation Reserve balance written off on disposal of sale of PPE	19	
203		Adjusting amounts written out of the Revaluation Reserve	<u>263</u>	
	<b>203</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>282</b>
		Capital financing applied in the year:		
1,087		• Use of the Capital Receipts Reserve to finance new capital expenditure	665	
764		• Capital grants and contributions credited to the CIES that have been applied to capital financing	1,133	
-		• Application of grants to capital financing from the Capitals Grants Unapplied Account	33	
2,506		• Capital expenditure charged against the General Fund	1,192	
(2)		• Repayment of parish loans	(2)	
	<b>4,355</b>	<b>Total</b>		<b>3,021</b>
	<b>50,370</b>	<b>Balance at 31 March</b>		<b>50,646</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 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.

<b>31.3.2016 £000</b>	<b>Pensions Reserve</b>	<b>31.3.2017 £000</b>
<b>(46,671)</b>	<b>Balance at 1 April</b>	<b>(42,454)</b>
6,605	Actuarial gains or (losses) on pension assets and liabilities	(10,111)
(5,224)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(3,236)
1,555	Employer's pensions contributions and direct payments to pensioners payable in the year	2,060
(344)	Accrued strain payments (see Note 2 'Material Items')	-
1,625	Reversal of accrued strain payments (see Note 2)	344
<b>(42,454)</b>	<b>Balance at 31 March</b>	<b>(53,397)</b>

### 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.

<b>31.3.2016 £000</b>	<b>Council Tax Collection Fund Adjustment Account</b>	<b>31.3.2017 £000</b>
<b>248</b>	<b>Balance at 1 April</b>	<b>255</b>
7	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	(106)
<b>255</b>	<b>Balance at 31 March</b>	<b>149</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 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.

31.3.2016 £000	Business Rates Collection Fund Adjustment Account	31.3.2017 £000
(174)	<b>Balance at 1 April</b>	(10,432)
(10,258)	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*	10,664
<b>(10,432)</b>	<b>Balance at 31 March</b>	<b>232</b>

\*The significant reduction in the Business Rates Collection Fund Adjustment Account reflects the large reduction in the provision for appeals. This is further explained in the Narrative Statement.

### 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.

31.3.2016 £000	£000	Accumulated Absences Account	31.3.2017 £000	£000
133	(133)	<b>Balance at 1 April</b>	120	(120)
(120)		Settlement or cancellation of accrual made at the end of the preceding year		
		Amounts accrued at the end of the current year	(125)	
		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		(5)
	<b>13</b>			
	<b>(120)</b>	<b>Balance at 31 March</b>		<b>(125)</b>

**SECTION 3. NOTES TO THE ACCOUNTS**

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

<b>2015/16 £000</b>		<b>2016/17 £000</b>
(2,118)	Depreciation	(2,298)
74	Impairment and downward valuations	448
(6)	Movement in market value of investment properties	(5)
(53)	Amortisation	(64)
8,855	Increase/(decrease) in Debtors	40
3,611	Increase/(decrease) in Creditors	(1,812)
(54)	Increase/(decrease) in Inventories	13
4,217	Movement in pension liability	(832)
-	Carrying amount of non-current assets held for sale, sold or derecognised	(35)
(10,963)	Other non-cash items charged to the net surplus or deficit on the provision of services	-
<b>3,563</b>	<b>Total</b>	<b>(4,545)</b>

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

<b>2015/16 £000</b>		<b>2016/17 £000</b>
401	Proceeds from the sale of Property, Plant and Equipment and Investment Properties	567
792	Other non-cash items charged to the net surplus or deficit on the provision of services	1,133
<b>1,193</b>	<b>Total</b>	<b>1,700</b>

**22. CASH FLOW STATEMENT – INVESTING ACTIVITIES**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
(4,357)	Purchase of property, plant and equipment, investment property and intangible assets	1,949
-	Increase/(decrease) in investments	2,000
(401)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(567)
(94)	Other receipts from investing activities (capital grants and contributions)	(1,245)
<b>(4,852)</b>	<b>Net cash flows from investing activities</b>	<b>2,137</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 23. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2015/16 £000		2016/17 £000
(380)	Other receipts from financing activity	(2,755)
<b>(380)</b>	<b>Total</b>	<b>(2,755)</b>

### 24. 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 under the Devon Building Control Partnership Committee 2017-2018:

<https://www.teignbridge.gov.uk/committee-meetings-and-agendas/devon-building-control-partnership-committee/devon-building-control-partnership-committee-2017-2018/>

### 25. 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://old.southhams.gov.uk/article/4930/Councillor-Allowances>

2015/16 £000		2016/17 £000
233	Allowances	228
18	Expenses	21
<b>251</b>	<b>Total</b>	<b>249</b>

### 26. 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:

### SECTION 3. NOTES TO THE ACCOUNTS

- 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 £
<b>Executive Director Service Delivery &amp; Commercial Development – started 1.1.15</b>	16/17	94,800	500	14,000	-	<b>109,300</b>
	15/16	94,000	8,700	13,900	-	<b>116,600</b>
<b>Group Manager for Customer First and Support Services – started 1.3.15</b>	16/17	72,500	800	10,700	-	<b>84,000</b>
	15/16	65,800	3,100	9,700	-	<b>78,600</b>
<b>Customer First Group Manager – started 1.3.15, left 31.1.16</b>	16/17	-	-	-	-	-
	15/16	55,000	-	8,200	11,500	<b>74,700</b>
<b>Executive Director Strategic Lead for Transformation – left 10.4.15</b>	16/17	-	-	-	-	-
	15/16	1,500	-	200	-	<b>1,700</b>

No other officers earned over £50,000 during 2016/17 or 2015/16.

#### **Note 1: 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 2016/17 South Hams District Council reimbursed costs amounting to £224,000 (2015/16 £214,000) in respect of some members of the Senior Leadership Team and the Monitoring Officer who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2016/17 from West Devon Borough Council of £107,000 (2015/16 £134,000) in respect of the above shared senior employees.

### **SECTION 3. NOTES TO THE ACCOUNTS**

#### **27. 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:

	<b>2015/16 £000</b>	<b>2016/17 £000</b>
<b>Fees payable with regard to external audit services</b>	<b>51</b>	<b>51</b>
Core Audit Fees	43	43
Audit of Grants and Returns	8	8
<b>Fees payable in respect of other services</b>	<b>-</b>	<b>1</b>
<b>TOTAL</b>	<b>51</b>	<b>52</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 28. GRANT INCOME

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

	2015/16 £000	2016/17 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Capital grants and contributions:</b>		
Environment Agency - Coastal Recovery Grant	(175)	(208)
Linden South West - Heathway, Totnes	(62)	-
Other capital grants and contributions	-	(2)
Reclassification of 2014/15 DEFRA grant from Capital to Revenue (AONB)	111	-
<b>Non ring - fenced Government grants and contributions:</b>		
Revenue Support Grant	(1,412)	(754)
New Homes Bonus Grant	(1,693)	(2,080)
Small Business Rate Relief	(1,176)	(1,164)
Council Tax Freeze Grant	(58)	-
Rural Services Delivery Grant	-	(406)
Transition Grant	-	(56)
<b>Total</b>	<b>(4,465)</b>	<b>(4,670)</b>
<b>Credited to Services</b>		
Rent Allowance subsidy	(21,867)	(21,298)
Housing Benefit administration subsidy	(297)	(246)
Rent rebate subsidy	(47)	(38)
Discretionary housing payments	(54)	(107)
Council Tax benefit administration subsidy	(79)	(89)
Business Rates cost of collection allowance	(206)	(208)
DCLG - Community Housing Fund	-	(1,881)
REFCUS grants applied		
Disabled facilities grant	(366)	(698)
Section 106 deposits	(84)	(120)
Repair and Renew grant	(30)	-
Coastal Recovery grant	(111)	(45)
Second Homes Funding	(77)	(60)
Recycling credits	(457)	(461)
Devon County Council - Torr Quarry Transfer Station	(284)	(298)
DCLG - Local Land Charges	(97)	(7)
Section 106 deposits	(185)	(291)
Electoral Commission - European Elections	(38)	-
Electoral Commission - General Elections	(79)	(1)
Electoral Commission - Police & Crime Commissioners Election	-	(122)
Electoral Commission - Referendum	-	(143)
DCLG - Sherford Resource Funding	(235)	-
Other grants	(432)	(691)
<b>Total</b>	<b>(25,025)</b>	<b>(26,804)</b>



### SECTION 3. NOTES TO THE ACCOUNTS

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:

<b>Capital Grants Receipts in Advance</b>	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(48)	(48)
<b>Total</b>	<b>(132)</b>	<b>(132)</b>

<b>Short Term Revenue Grants Receipts in Advance</b>	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
DCLG – Sherford Resource Funding	(162)	-
DCLG – Custom Self Build Grant	-	(15)
Devon County Council – Public Health Grant	(24)	(7)
Other grants	(18)	(2)
<b>Total</b>	<b>(204)</b>	<b>(24)</b>

<b>Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)</b>	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
Langage Energy Centre	(2,129)	(1,868)
Dartmouth Supermarkets	(204)	-
Leyford Close, Wembury	(321)	(183)
Riverside, Totnes	(250)	(459)
Gara Rock, Salcombe	-	(341)
Bonfire Hill, Salcombe	(61)	(194)
Former Old Chapel Inn, Bigbury	(110)	(110)
Trennels, Herbert Road, Salcombe	(107)	(107)
Sawmills Field, Dartington	(3)	(150)
Follaton Oak, Totnes	-	(105)
Plot 2 Godwell Lane, Ivybridge	-	(142)
Various other sites	(558)	(629)
<b>Total</b>	<b>(3,743)</b>	<b>(4,288)</b>

### 29. 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.

### SECTION 3. NOTES TO THE ACCOUNTS

#### 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 28.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 25.

#### 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.

### 30. 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.

	2015/16 £000	2016/17 £000
<b>Capital Investment</b>		
Property, plant and equipment	2,618	1,533
Intangible assets	101	97
Revenue expenditure funded from capital under statute (REFCUS)	1,613	1,073
Assets under Construction	25	320
<b>Total expenditure</b>	<b>4,357</b>	<b>3,023</b>
<b>Sources of Finance</b>		
Capital receipts	1,087	665
Government grants and other contributions	764	1,166
Direct revenue contributions (earmarked reserves)	2,506	1,192
<b>Total funding</b>	<b>4,357</b>	<b>3,023</b>

*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).*

## SECTION 3. NOTES TO THE ACCOUNTS

### 31. 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	Segment in CIES
A parcel of land for car parking	10 years	09.04.2017*	Commercial Services
The fundus of the Salcombe & Kingsbridge Estuary for the provision of harbour activities	21 years	24.03.2028	Commercial Services

\*Negotiations are underway to renew the car parking lease but the new lease has not yet been finalised. Therefore the future minimum lease payments as at 31 March 2017 only include amounts due in April 2017 for this particular lease.

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

	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	201	121
Later than one year & not later than five years**	469	487
Later than five years	862	765
	<b>1,532</b>	<b>1,373</b>

\*\*The minimum lease payments have been increased as at 31 March 2016 from £467,000 to £469,000 to reflect the correct expiry date of the car parking lease. The date has been amended from 31 March 2017 to 9 April 2017.

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

	<b>2015/16 £000</b>	<b>2016/17 £000</b>
Minimum lease payments	200	205
	<b>200</b>	<b>205</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### 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	Segment in CIES
The operation of a supermarket	99 years	20.12.2077	Customer First
The rental of an industrial unit	25 years	31.05.2029	Customer First
The provision of temporary accommodation	10 years	30.03.2021	Customer First
The rental of office accommodation	20 years	24.07.2032	Customer First
The rental of office accommodation	10 years	29.09.2026	Customer First

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

	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	746	772
Later than one year & not later than five years	2,984	3,095
Later than five years	34,372	33,904
	<b>38,102</b>	<b>37,771</b>

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.

## SECTION 3. NOTES TO THE ACCOUNTS

### 32. EXIT PACKAGES AND TERMINATION BENEFITS

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		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
£0 - £20,000	3	-	3	-	24,000	-
£20,001 - £40,000	3	-	3	-	99,200	-
£40,001 - £60,000	5	-	5	-	238,200	-
£60,001 - £80,000	1	-	1	-	72,800	-
£100,001 - £150,000	-	1	-	1	-	103,100
<b>TOTAL</b>	<b>12</b>	<b>1</b>	<b>12</b>	<b>1</b>	<b>434,200</b>	<b>103,100</b>

The exit package amount is the cost of redundancy payment plus the cost of pension strain payments.

#### Note 1: Shared Services with West Devon Borough Council

Of the £103,100 cost of exit packages in 2016/17 (£434,200 in 2015/16), West Devon will be contributing nil to this cost (£139,000 in 2015/16). In addition, South Hams District Council has not contributed towards exit packages in West Devon Borough Council for 2016/17 or 2015/16.

### 33. 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).

### SECTION 3. NOTES TO THE ACCOUNTS

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

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 as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. 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 2018 is £1.347m. 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:

<b>Comprehensive Income and Expenditure Statement</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>
<b>Cost of Services</b>		
<i>Service cost compromising</i>		
- Current Service Cost	991	1,837
- Past Service Cost	1,420	183
- Capitalised gains on Settlements	-	(654)
<i>Financing and Investment Income and Expenditure</i>		
- Net Interest Expense	1,499	1,476
- Administration Expenses	33	50

### SECTION 3. NOTES TO THE ACCOUNTS

<b>Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>3,943</b>	<b>2,892</b>
<b>Other post-employment benefits charged to the comprehensive income and expenditure statement</b>		
<i>Re-measurement of the net defined benefit liability compromising:</i>		
- Change in financial assumptions	(8,535)	28,023
- Change in demographic assumptions	-	(448)
- Experience loss/(gain)	(92)	(6,374)
- Return on fund assets in excess of interest	2,022	(10,867)
- Other actuarial gains/(losses) on assets	-	(223)
<i>Total re-measurement recognised</i>	<i>(6,605)</i>	<i>10,111</i>
<b>Total post-employment benefits charged to the Comprehensive income and expenditure statement</b>	<b>(2,662)</b>	<b>13,003</b>
<i>Movement in Reserves Statement</i>		
- Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(3,943)	2,892
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
- Employers contributions payable to scheme	1,555	2,060

### 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:

<b>Net Pension Liability</b>	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
Present value of the defined benefit obligation	118,473	140,688
Provision for Strain liability arising from future early retirements	344	-
Fair value of Fund assets	(79,294)	(90,451)
<b>Deficit / (Surplus)</b>	<b>39,523</b>	<b>50,237</b>
Present value of unfunded obligation	2,931	3,160
<b>Net defined benefit liability / (asset)</b>	<b>42,454</b>	<b>53,397</b>

### SECTION 3. NOTES TO THE ACCOUNTS

<b>Reconciliation of opening and closing balances of the fair value of Fund assets</b>	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
<b>Opening fair value of Fund assets</b>	<b>82,160</b>	<b>79,294</b>
Interest on assets	2,655	2,811
Return on assets less interest	(2,022)	10,867
Other actuarial gains/ (losses)	-	223
Administration expenses	(33)	(50)
Contributions by employer including unfunded	1,555	2,060
Contributions by Scheme participants	463	493
Estimated benefits paid plus unfunded net of transfers in	(5,484)	(4,413)
Settlement prices received / (paid)	-	(834)
<b>Closing fair value of Fund assets</b>	<b>79,294</b>	<b>90,451</b>

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>31 March 2016 £000</b>	<b>31 March 2017 £000</b>
<b>Opening defined benefit obligation</b>	<b>128,831</b>	<b>121,748</b>
Current service cost	2,272	2,181
Provision for Strain liability	(1,281)	(344)
Interest cost	4,154	4,287
Change in financial assumptions	(8,535)	28,023
Change in demographic assumptions	-	(448)
Experience loss / (gain) on defined benefit obligation	(92)	(6,374)
Liabilities assumed / (extinguished) on settlements	-	(1,488)
Estimated benefits paid net of transfers in	(5,282)	(4,216)
Past service costs, including curtailments	1,420	183
Contributions by Scheme participants	463	493
Unfunded pension payments	(202)	(197)
<b>Closing defined benefit obligation</b>	<b>121,748</b>	<b>143,848</b>

#### **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 2017, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.



### SECTION 3. NOTES TO THE ACCOUNTS

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 2016	31 March 2017
<b>Mortality assumptions (in years):</b>		
<i>Longevity at 65 for current pensioners</i>		
- Men	22.9	23.4
- Women	26.2	25.5
<i>Longevity at 65 for future pensioners (in 20 years)</i>		
- Men	25.2	25.6
- Women	28.6	27.8
<b>Financial assumptions (in percentages):</b>		
- RPI increases	3.2%	3.6%
- CPI increases	2.3%	2.7%
- Salary increases	4.1%	4.2%
- Pension increases	2.3%	2.7%
- Discount rate	3.6%	2.7%

The financial assumptions summarised in the table above are set with reference to market conditions at 31 March 2017.

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

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	141,306	143,848	146,439
Projected service cost	3,140	3,220	3,302
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	144,107	143,848	143,591
Projected service cost	3,220	3,220	3,220
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	146,177	143,848	141,560
Projected service cost	3,202	3,220	3,140
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	149,560	143,848	138,361
Projected service cost	3,323	3,220	3,120

### SECTION 3. NOTES TO THE ACCOUNTS

The estimated asset allocation for South Hams District Council as at 31 March 2017 is as follows:

Employer asset share	31 March 2016		31 March 2017	
	£000	%	£000	%
Gilts	2,603	3%	2,701	3%
UK equities	19,066	24%	21,750	24%
Overseas equities	25,749	32%	31,453	34%
Property	8,768	11%	7,914	9%
Infrastructure	3,303	4%	3,520	4%
Target return portfolio	11,488	15%	13,429	15%
Cash	1,471	2%	2,415	3%
Other bonds	2,279	3%	2,312	3%
Alternative assets	4,567	6%	4,957	5%
<b>Total</b>	<b>79,294</b>	<b>100%</b>	<b>90,451</b>	<b>100%</b>

Of the total fund asset at 28 February 2017, the following table identifies the split of those assets with a quoted market price and those that do not:

Employer Asset Share – Bid Value		28 February 2017	
		% Quoted	% Unquoted
<b>Fixed interest government securities</b>	UK	0.0%	-
	Overseas	2.9%	-
<b>Corporate bonds</b>	UK	0.1%	-
	Overseas	2.4%	-
<b>Equities</b>	UK	22.7%	1.4%
	Overseas	30.3%	4.6%
<b>Property</b>	All	-	8.7%
<b>Others</b>	Absolute return portfolio	14.8%	-
	Infrastructure	-	3.9%
	Multi sector credit fund	5.5%	-
	Cash/Temporary investments	-	2.7%
<b>Net current assets</b>	Debtors	-	0.1%
	Creditors	-	(0.1%)
<b>Total</b>		<b>78.7%</b>	<b>21.3%</b>

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **34. 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).

### **35. 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;

### **SECTION 3. NOTES TO THE ACCOUNTS**

- 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 10 March 2016 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.

#### Credit risk

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 13 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 2016/17 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

### **SECTION 3. NOTES TO THE ACCOUNTS**

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 2017 and is reflected in the current figure of £583,000. This compares to £525,000 in 2015/16. 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 14 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 15 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

### **SECTION 3. NOTES TO THE ACCOUNTS**

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 £263,000 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.

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **36. ACCOUNTING POLICIES**

#### **a) General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. 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 2016/17, 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.

### **SECTION 3. NOTES TO THE ACCOUNTS**

- 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 £2,500 to £5,000 in 2016/17. 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:

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

**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.



## **SECTION 3. NOTES TO THE ACCOUNTS**

### **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)

### **SECTION 3. NOTES TO THE ACCOUNTS**

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.

#### **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 33.

### **SECTION 3. NOTES TO THE ACCOUNTS**

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.

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **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) Events after the Reporting Period**

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) Financial Instruments**

#### **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.

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **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

### **SECTION 3. NOTES TO THE ACCOUNTS**

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:

<b>Financial Instrument</b>	<b>Basis of Measurement</b>	<b>Note</b>
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 35 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.

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **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

### **SECTION 3. NOTES TO THE ACCOUNTS**

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.



## **SECTION 3. NOTES TO THE ACCOUNTS**

### **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.

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **q) Overheads and Support Services**

Costs of overheads and support services are only recharged to services requiring full cost recovery including Building Control and Salcombe Harbour. Apart from these exceptions support services are shown in the Comprehensive Income and Expenditure Statement in their own reporting segment, which is in line with the Council's internal reporting method.

### **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.

### **SECTION 3. NOTES TO THE ACCOUNTS**

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.

### **SECTION 3. NOTES TO THE ACCOUNTS**

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 and 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

### **SECTION 3. NOTES TO THE ACCOUNTS**

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).

Depreciation 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:

### **SECTION 3. NOTES TO THE ACCOUNTS**

<b>Asset</b>	<b>Useful life</b>
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

### **SECTION 3. NOTES TO THE ACCOUNTS**

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) Provisions, Contingent Liabilities and Contingent Assets**

##### **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.

### **SECTION 3. NOTES TO THE ACCOUNTS**

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.



## **SECTION 3. NOTES TO THE ACCOUNTS**

### **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 and 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 and Expenditure Statement for the year will be treated as accrued income.

### **SECTION 3. NOTES TO THE ACCOUNTS**

Both business rates income and council tax will be recognised in the Comprehensive Income and Expenditure Statement (CIES) in the line 'taxation and 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.

#### **37. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) introduces changes in accounting policies that will have to be adopted fully by the authority in the 2017/18 financial statements i.e. from 1 April 2017.

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.

There are no accounting standards due to come into force in 2017/18 that would have a material effect on the Council's transactions for 2016/17 and balances at 31 March 2017.

## **SECTION 3. NOTES TO THE ACCOUNTS**

### **38. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 36, 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 was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals have been settled. As a consequence there has been a reduction in the business rates appeals provision of £27.1 million in 2016/17.

## 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.

2015/16 Business Rates £000	2015/16 Council Tax £000		2016/17 Business Rates £000	2016/17 Council Tax £000
		<b>INCOME</b>		
-	(59,780)	Income from Council Tax	-	(62,744)
(31,512)	-	Business Rates Receivable	(30,856)	
45	-	Less: Transitional Relief	835	
<b>(31,467)</b>	<b>(59,780)</b>		<b>(30,021)</b>	<b>(62,744)</b>
		<b>EXPENDITURE</b>		
		<b>Precepts, Demands and Shares:</b>		
15,101	-	Central Government	15,265	-
2,718	42,510	Devon County Council	2,748	44,687
-	6,204	Devon & Cornwall Police Authority	-	6,396
302	2,871	Devon & Somerset Fire Authority	305	2,960
12,081	7,005	South Hams District Council (net including Towns/Parishes)	12,212	7,411
268	-	Business Rates written off and change in impairment allowance	341	-
-	307	Council Tax written off and change in impairment allowance	-	429
26,702	-	Business Rates increase/(decrease) in provision for appeals *	(27,135)	-
206	-	Business Rates – Costs of collection	208	-
		Distribution/collection of previous year's estimated surplus/(deficit):		
(133)	-	Central Government	(292)	-
(24)	598	Devon County Council	(52)	1,270
-	87	Devon and Cornwall Police	-	185
(3)	40	Devon and Somerset Fire Authority	(6)	85
(107)	100	South Hams District Council	(233)	210
<b>57,111</b>	<b>59,722</b>		<b>3,361</b>	<b>63,633</b>
<b>25,644</b>	<b>(58)</b>	<b>MOVEMENT ON BALANCE *</b>	<b>(26,660)</b>	<b>889</b>

\*The decrease in the provision for Business Rates appeals and the subsequent impact on the Business Rates Collection Fund is explained in the Narrative Statement and in note 38 – Critical Judgements in Applying Accounting Policies.

## SECTION 4. COLLECTION FUND

### 1. Council tax and council tax base

In 2016/17, the Council's average Band D Council Tax was £1,660.73 (£1,600.52 in 2015/16). The charge for each band is a ratio of band D. The 2016/17 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	922.63
A	6/9	1,107.15
B	7/9	1,291.68
C	8/9	1,476.20
D	1	1,660.73
E	11/9	2,029.78
F	13/9	2,398.83
G	15/9	2,767.88
H	18/9	3,321.46

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 2016/17 was **37,003.99** as calculated below (36,606.88 in 2015/16).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A		12.25	12.25	5/9	6.81
A	4,917	(822.25)	4,094.75	6/9	2,729.83
B	8,548	(905.25)	7,642.75	7/9	5,944.36
C	8,449	(752.00)	7,697.00	8/9	6,841.78
D	7,847	(598.25)	7,248.75	1	7,248.75
E	6,620	(424.75)	6,195.25	11/9	7,571.97
F	3,638	(173.50)	3,464.50	13/9	5,004.28
G	2,972	(169.50)	2,802.50	15/9	4,670.83
H	331	(22.50)	308.50	18/9	617.00
<b>Total</b>	<b>43,322</b>	<b>(3,855.75)</b>	<b>39,466.25</b>		<b>40,635.61</b>
Less allowance for non collection					(812.71)
Plus adjustment for armed forces dwellings					66.40
Other adjustments including Council Tax Support					(2,885.31)
<b>Tax base</b>					<b>37,003.99</b>

## SECTION 4. COLLECTION FUND

### 2. Rateable value

The total business rates rateable value at 31 March 2017 was £83,760,677. This compares to £83,223,035 at 31 March 2016. The standard business rates multiplier was 49.7p in 2016/17 (2015/16: 49.3p). Without reliefs this would generate a total income of £41,629,056.47 (2015/16 £41,028,956.25). 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

<b>2015/16 Business Rates £000</b>	<b>2015/16 Council Tax £000</b>		<b>2016/17 Business Rates £000</b>	<b>2016/17 Council Tax £000</b>
435	(2,062)	Fund balance at 1 April	26,079	(2,120)
25,644	(58)	Deficit/(surplus) for year*	(26,660)	889
<b>26,079</b>	<b>(2,120)</b>	<b>Fund balance as at 31 March – deficit/(surplus)*</b>	<b>(581)</b>	<b>(1,231)</b>

\*The decrease in the provision for Business Rates appeals and the subsequent impact on the Business Rates Collection Fund is explained in the Narrative Statement and in note 38 – Critical Judgements in Applying Accounting Policies.

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

<b>2015/16 Business Rates £000</b>	<b>2015/16 Council Tax £000</b>		<b>2016/17 Business Rates £000</b>	<b>2016/17 Council Tax £000</b>
13,039	-	Central Government	(291)	-
2,347	(1,539)	Devon County Council	(52)	(895)
-	(223)	Devon and Cornwall Police	-	(128)
261	(103)	Devon and Somerset Fire Authority	(6)	(59)
<b>15,647</b>	<b>(1,865)</b>	<b>Total deficit/(surplus) due to Preceptors</b>	<b>(349)</b>	<b>(1,082)</b>
10,432	(255)	South Hams District Council	(232)	(149)
<b>26,079</b>	<b>(2,120)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>(581)</b>	<b>(1,231)</b>

**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 Section 151 Officer & Strategic Finance Lead
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

***Responsibilities of the Section 151 Officer & Strategic Finance Lead***

The Section 151 Officer & Strategic Finance Lead 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 Section 151 Officer & Strategic Finance Lead 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 Section 151 Officer & Strategic Finance Lead 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 certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31 March 2017.

.....

**Lisa Buckle BSc (Hons), ACA  
Section 151 Officer & Strategic Finance Lead**

**21 September 2017**

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

***Approval of the Statement of Accounts***

I confirm that these accounts were approved by the Audit Committee at its meeting held on 21<sup>st</sup> September 2017.

Signed on behalf of South Hams District Council

.....

**Councillor J A Pearce**

Chairman of the Audit Committee



## **SECTION 6. AUDITORS' REPORT**

### **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 2017 on pages 28 to 108. 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 2016/17.

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 2017 and of the Authority's expenditure and income for the year then ended;

## **SECTION 6. AUDITORS' REPORT**

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **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' (CIPFA/SOLACE 2016 Edition); 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 its 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**

## **SECTION 6. AUDITORS' REPORT**

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 2016, 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 2017.

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.

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, 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 2017.

### **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

Britannia Quay

Cardiff

CF10 4AX

21 September 2017

## **SECTION 7. GLOSSARY OF TERMS**

<b>ACCRUALS</b>	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.
<b>ACTUARIAL GAINS AND LOSSES</b>	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.
<b>BALANCES</b>	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.
<b>CAPITAL EXPENDITURE</b>	Expenditure on the acquisition of an asset or expenditure which adds to and not merely maintains the value of an existing asset.
<b>CAPITAL RECEIPTS</b>	Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loan.
<b>CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)</b>	The governing body responsible for issuing the statement of recommended practice to prepare the accounts.
<b>COLLECTION FUND</b>	A separate fund which must be maintained by a district for the proper administration of council tax and business rates.
<b>CURRENT SERVICE COST</b>	Amount chargeable to Services based on the Actuary's assessment of pension liabilities arising and chargeable to the financial year.
<b>CURTAILMENTS</b>	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.
<b>DEFINED BENEFIT</b>	A pension or other retirement benefit scheme

## **SECTION 7. GLOSSARY OF TERMS**

<b>SCHEME</b>	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).
<b>DEMAND</b>	The charging authorities own Demand is, in effect, its precept on the fund.
<b>FAIR VALUE</b>	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.
<b>FEES AND CHARGES</b>	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.
<b>FINANCIAL INSTRUMENTS</b>	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.
<b>GOVERNMENT GRANTS</b>	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
<b>IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)</b>	Provisions against income to prudently allow for non collectible amounts.
<b>INTEREST COST</b>	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.
<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE CODE OF PRACTICE (CODE)</b>	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.
<b>PAST SERVICE COST</b>	These will typically be additional benefits

## **SECTION 7. GLOSSARY OF TERMS**

	awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.
<b>PRECEPT</b>	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.
<b>PROJECTED UNIT METHOD</b>	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
<b>RATEABLE VALUE</b>	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.
<b>REVENUE EXPENDITURE</b>	Recurring items of day to day expenditure consisting principally of salaries and wages, and general running expenses etc.
<b>SETTLEMENTS</b>	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.
<b>STRAIN ON FUND CONTRIBUTIONS</b>	Additional employers pension contributions as a result of an employee's early retirement.
<b>SUNDRY CREDITORS</b>	Amounts owed by the Council at 31 March.
<b>SUNDRY DEBTORS</b>	Amounts owed to the Council at 31 March.

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# South Hams District Council Annual Governance Statement 2016 – 2017

## 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 has concluded that the recommended criteria have been met in all areas.

## **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 2017 and is expected to continue up to the date of approval of the Accounts by the Audit Committee.

The Statement explains how South Hams District Council has met the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016.

Included within this framework are seven core principles of governance:

### **PRINCIPLE A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

All Council decisions incorporate a legal implications section which are published on the Council's website. Officers and Members receive support from Legal Services in considering legal implications and if specialist legal advice is required then the Council will engage external advisors. The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal and financial requirements, and for reporting any such instances to Members.

In addition the Council undertakes the following to ensure a strong commitment to ethical values and behaving with integrity:

- 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. It was last reviewed and adopted by Members in July 2016 and is reviewed annually by the Statutory Officers' Panel.
- 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 Officers Code of Conduct is being reviewed and the Members Code of Conduct is due for review in 2017-18.
- 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.

### **PRINCIPLE B - Ensuring openness and comprehensive stakeholder engagement**

All Committee and Council meetings are open to the public, with papers available in advance on the Council's website (save where 'exempt' under the Local Government Act 1972 following formal evaluation of the public interest).

The Council also undertakes the following to ensure openness and comprehensive engagement:

- Publishes consultations and surveys on the Council website and uses a consultation checklist based on the Gunning Principles to structure consultations to ensure good communication guidelines are adhered to.
- Utilises social media on a daily basis including Twitter, Instagram, Facebook, LinkedIn and YouTube to provide instant information on Council services thus allowing for a free flow of comments from stakeholders.
- Uses dedicated Locality Engagement Officers to attend local events to canvas the opinions of stakeholders to help shape the delivery of Council services.
- Produces specific e-bulletins for various interest groups including Business, Housing, Neighbourhood Planning, etc.
- Publishes an Annual Report available on the Council website which openly demonstrates how Council resources are used.

### **PRINCIPLES C AND D - Defining, optimising and achieving outcomes**

The Council has a number of strategic documents and plans that guide its approach to achieving its vision and ensuring that it remains financially sustainable. The Council's adopted Priorities are confirmed in Article 6 of the Constitution and again are published on the Council's website.

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.

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.

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

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;

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

The Council's 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*

Progress on each of the above Our Plan themes is detailed in the Council's Annual Report 2016/17 which was approved by Council on 11 May 2017 and is available on the Council website.

In tandem, work has progressed to develop a Joint Local Plan between Plymouth City, South Hams and West Devon. The Joint Local Plan sets out a strategy and detailed policies that establish a framework to steer housing and employment development to the most sustainable locations and to guide decisions on planning applications. Work on this Joint Plan is due to be submitted for examination by the Planning Inspectorate during the Summer of 2017; a key milestone for those wishing to progress their Neighbourhood Plans.

The Council also undertakes the following to ensure it defines, optimises and achieves outcomes:

- Staff briefings led by Senior Leadership Team articulate the vision and new ways of working
- 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 have been realised
- Performance management and reporting is embedded including quarterly reporting to the Overview and Scrutiny Panel
- Scrutiny teams have delivered tangible outcomes as highlighted in their Annual Report
- The Council regularly engages with other authorities to learn and understand how best practice has been delivered elsewhere.

## **PRINCIPLE E - Developing capacity and capability**

Staff throughout South Hams and West Devon perform well with sickness levels below the national average. HR policies allow a fair and positive relationship between employer and employee. Regular staff briefings and an online staff appraisal system ensures staff are up to speed with Council priorities. Employees are able to evidence their achievements and identify any training needs through the appraisal process. The Council is committed to providing opportunities to young people and currently have 5 apprentices.

The Council also undertakes the following to develop capacity and capability:

- Delivers an induction programme for Officers and Members
- Provides a Member training and development programme
- Promotes to staff the use of “Learning Pool” an extensive online learning resource
- Delivers focused training on specific issues (e.g. complaints, data protection)
- Commencement of an Extended Leadership Team development programme
- Works in partnership with local authorities and other bodies to achieve economies of scale
- Conducts a staff survey to gauge employee satisfaction and assist in improving how the organisation performs.

## **PRINCIPLE F - Managing risks and performance**

There is a culture of risk ownership and management throughout the Council in 16/17, particular focus has been given to health and safety and information security. Risks are logged centrally and are updated regularly.

For each risk, the uncertainties are identified, along with the consequences, likelihood of occurrence and strategic impacts that would result. The Council’s Senior Leadership Team review the corporate risk log monthly and updates are reported to Elected Members via the Audit Committee on a biannual basis.

Elected Members also have the opportunity to raise concerns with the mitigating actions being taken by officers and can suggest new risks for consideration

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. It has a rolling programme of works which are set out in a Forward Plan.

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, and are monitored by appropriate senior officers (including the S151 Officer and the Monitoring Officer).

With regards to managing performance throughout the year we have continued to improve performance to meet the needs of our customers.

We have systematically reviewed areas of poor performance, streamlined processes, embedded new IT solutions and delivered staff training. As a result we have seen a significant reduction in call volumes, an increase in transactions online and quicker turnaround times for planning, benefits and disabled facility grants applications.

To manage performance the Council ensures the following:

- 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.
- Active performance management arrangements including quarterly reports to Overview & Scrutiny Panel on performance measures
- A robust complaints/ compliments procedure is in place and is widely publicised, with the Ombudsman's Annual Report being reported to the Overview and Scrutiny Panel
- Freedom of Information requests are dealt with in accordance with established protocols

### **PRINCIPLE G Implementing good practices in transparency, reporting, and accountability**

The Council follows the Government Communication Service guidance on providing clear and accurate information and has a number of measures in place to demonstrate transparency and accountability.

An Audit Committee meets five times a year and its role is to provide an oversight of the financial reporting and audit processes plus the system of internal controls and compliance with laws and regulations.

The Council also has two internal audit staff managed by the Devon Audit Partnership who provide an opinion on the internal control environment and governance processes.

External audit is provided by KPMG who in 2016 reported 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.

To further ensure transparency the council undertakes the following:

- Provide training to Members on the Overview and Scrutiny Panel on effective scrutiny practices
- Ensure all Member decisions are formally minuted
- Publishes all Council decisions online together with background reports
- Produces an Annual Report detailing Council performance and spend

### **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 2016/17 included specific work on;

- Review of Fees and Charges 2017/18
- Medium Term Financial Strategy for the five year period 2017/18 to 2021/22
- Budget Proposals 2017/18 (Revenue and Capital Budget Proposals)
- Review of Case Management function
- Dartmouth Lower Ferry – Tariff Review
- Planning Peer Challenge Review 2016/17
- Review of South Hams Permits
- Sherford Development
- Joint SH/WD Economy Member Working Group Findings and Delivery Plan
- Parking arrangements for Vehicle Tax-Exempt Motorists

- Community Safety Partnership
- Transitional Resources Monitoring Report
- Local Service Performance
- Disabled Facilities Grants
- Beach Water Safety
- Ombudsman Annual Review Letter 2016
- Devon and Cornwall Housing – Annual Update
- Empty Homes Strategy
- Street Naming and Numbering Briefing paper
- Quarterly Performance Measures
- Task and Finish Group Updates
  - Dartmouth Lower Ferry
  - Partnerships
  - Waste and Recycling
  - Events Policy
  - Permits Review

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:

- South Devon and Torbay Clinical Commissioning Group
- NEW (Northern, Eastern, Western) Devon Clinical Commissioning Group

#### The Audit Committee

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 will provide:-

- i) independent assurance of the adequacy of the risk management framework and the associated control environment
- ii) independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment
- iii) oversees the financial reporting process.



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

The Council'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 2016/17 is also due to be considered by the Audit Committee on 22 June 2017. The report contains the Head of Internal Audit's Opinion which is that "Based on the work performed during 2016/17 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 2016/17.

### 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

Action on independent recommendations.

External auditors and other review agencies/inspectors

Our external auditors (KPMG) have issued their 'Audit progress' letter dated 9 June 2017 on the outcome of the planning and control evaluation phases of their audit. This was to ensure that, in line with good practice, that any significant matters are reported to those charged with governance in a timely manner. Their letter states their audit work has gone smoothly and that they have not identified any significant issues. However KPMG did identify one non-significant control deficiency. This related to the fact that the completion of monthly benefit payment checks by officers was not being documented so as to evidence their completion.

The key messages from KPMG's External Audit report for 2015/16 (presented to the Audit Committee on 22<sup>nd</sup> September 2016) were as follows:-

An unqualified audit opinion on the Accounts was issued by 30 September 2016. KPMG's audit of the Accounts did not identify any material misstatements to the Council's Accounts and they agreed a number of minor presentational and disclosure changes to the supporting notes to the Accounts.

No significant issues arose as a result of their work on the allocation of shared costs or the provision for business rates appeals.

The KPMG report stated that the Council has good processes in place for the production of the accounts and good quality supporting working papers.

**Value for Money (VFM) audit conclusion** – KPMG concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. An unqualified VFM conclusion was issued by 30 September 2016.

## 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**

Issue Identified	Action to be Taken	Responsible Officer
<p><b>T18 Transformation Programme</b></p> <p>South Hams District Council and West Devon Borough Council have undertaken innovative plans to transform the way the Councils carry out their work. 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 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.</p> <p>On 25 Feb 2016, Council approved the cost of £134,000 for additional resource to address the planning enforcement backlog.</p> <p>On 16<sup>th</sup> June 2016 the Executive considered a report on Transitional Resources. The Executive have recommended to Council (on 30<sup>th</sup> 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.</p>	<p>Monitoring reports on Performance and transitional resources are presented to the Council's Overview and Scrutiny Panel.</p> <p>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.</p> <p>The Council's Head of Paid Service and Group Manager have regular weekly meetings with the IT software supplier.</p> <p>Transitional Resources Report to Executive (16/6/16) and Council (25/2/16) and (30/6/16)</p> <p>Monitored by a group of officers – Transitional Improvement Board</p>	<p>Senior Leadership Team S.151 Officer Monitoring Officer Internal Audit Manager Timescale in line with the Programme.</p> <p>Audit Committee</p> <p>Transitional Improvement Board</p>

*Issues and action plan from the System of Internal Control:*

The system of internal control is described in section 2 above.

<b>Issue Identified</b>	<b>Action to be Taken</b>	<b>Responsible Officer &amp; Target Date</b>
<p><b><i>Financial Uncertainty</i></b></p> <p>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.</p> <p>A Medium Term Financial Strategy (MTFS) was presented to the Executive in September 2016 setting out the current position and was regularly updated throughout the 2017-18 Budget Setting process.</p> <p>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 £0.6 million by 2020/2021, whilst protecting its much valued services.</p> <p>The next MTFS is due to be presented to Members in July 2017. The Council has commenced several initiatives that aim to help us to reduce our costs and meet the challenge of a significant funding gap.</p>	<p>Other initiatives in progress include:</p> <ul style="list-style-type: none"> <li>• Income generation initiatives</li> <li>• Commercial property investment strategy</li> <li>• Exploring the concept of creating one single Council with West Devon Borough Council to extend the current shared services partnership</li> <li>• Business Rates Pilot</li> <li>• Strategic Asset Review</li> </ul>	<p>Senior Leadership Team S151 Officer On-Going</p> <p>Reports to Council at the end of July 2017</p>

<b>Issue Identified</b>	<b>Action to be Taken</b>	<b>Responsible Officer and Target Date</b>
<p><b>Business Rates Appeals Provision</b></p> <p>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.</p> <p>The membership of the Devon Pool consisted of all Devon District Councils, Devon County Council, Torbay Unitary and Plymouth Unitary.</p> <p>The Valuation Office provided a list of outstanding appeals for the Council, and these were taken account of when completing the government return NNDR3 for 2015/16 (section relating to business rates appeals provision).</p> <p>There was uncertainty and risk surrounding the calculation of the business rates appeals provision as future events may affect the amount required to settle an obligation.</p> <p>The Council took external specialist advice on the accounting for its appeals provision for 2015/16 and also engaged with the Council's external auditors (KPMG) in early discussion on the subject.</p>	<p>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.</p> <p>The significant business rates appeal was settled in March 2017 and the Council has reflected that fact in its Collection Fund Account for 2016/17 and notified its preceptors. This will mean in 2016/17 that the appeals provision reduces from £29 million to £1.9 million (the SHDC share of this reduces from £11.6 million to £0.8 million). This will be shown in the Council's Accounts for 2016/17.</p>	<p>S151 Officer Publish 16/17 Accounts June 2017</p>
<b>Issue Identified</b>	<b>Action to be Taken</b>	<b>Responsible</b>

		<b>Officer &amp; Target Date</b>
<p><b>Joint Local Plan</b></p> <p>A key responsibility of the Council is to maintain an up to date development plan.</p> <p>The Joint Local Plan prepared in conjunction with West Devon and Plymouth Councils sets out a strategy and detailed policies that establish a framework to steer housing and employment development to the most sustainable locations and to guide decisions on planning applications.</p> <p>A Joint Member Steering Group is in place to ensure that key decisions needing to be made are taken back to the individual Local Authorities.</p>	<p>The Joint Local Plan will be the subject of an examination by the Planning Inspectorate in Autumn 2017 (following a public engagement event) with the intention to adopt in the year 2017/18.</p>	<p>Executive Director (Strategy &amp; Commissioning)</p> <p>Adopt in the year 2017/18</p>
<p><b>Internal and External Audit Reports</b></p> <p>Some issues have been identified in audit reports by the Council's shared in-house internal audit team and the Council's external auditor, KPMG.</p> <p>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate.</p>	<p>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.</p>	<p>Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales</p>

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.

## CONCLUSION

The Council is satisfied that appropriate governance arrangements are in place. However it remains committed to maintaining and where possible, improving these arrangements, in particular by addressing the issues identified by Internal Audit and External Audit in their regular reports to the Audit Committee.

**Signed:**

**Cllr R Tucker  
Leader of South Hams District Council**

**Signed:**

**Steve Jordan  
Executive Director (Strategy and Commissioning) and Head  
of Paid Service, on behalf of South Hams District Council**

**Date: 21 September 2017**

## **This is a formal communication to the chief executive and chief finance officer of South Hams District Council to consult on the auditor appointment from 2018/19**

I am writing to consult you on the appointment of Grant Thornton (UK) LLP to audit the accounts of South Hams District Council for five years from 2018/19. The appointment will start on 1 April 2018.

### **Background**

For audits of the accounts from 2018/19, PSAA is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. More information on the [appointing person scheme](#) is available on our website.

### **About the proposed appointment**

PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.

South Hams District Council has opted into PSAA's auditor appointment arrangements. We have sent regular email communications to audited bodies about this process, and wrote to you on 19 June 2017 to advise you that we had completed a procurement to let audit contracts from 2018/19. Grant Thornton (UK) LLP was successful in winning a contract in the procurement, and we propose appointing this firm as the auditor of South Hams District Council.

Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The public sector has played a significant role within the firm for over 30 years. The UK Public Sector Assurance team employs 301 people, including 29 Key Audit Partners, based in designated 'centres of excellence', providing it with locally based public sector specialists across the country. The team is solely dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and the Wales Audit Office. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's development of appropriate thought leadership and support, such as its series of publications and workshops on income generation in local authorities. In addition, the team can draw on the commercial skills and experience of a wider assurance team of over 1,516 individuals, to reflect the changing assurance needs of local authorities and NHS bodies.

In developing this appointment proposal, we have applied the following principles, balancing competing demands as much as we can, based on the information provided to us by audited bodies and audit firms:

- ensuring auditor independence, as we are required to do by the Regulations;
- meeting our commitments to the firms under the audit contracts;
- accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
- ensuring a balanced mix of authority types for each firm;
- taking account of each firm's principal locations; and
- providing continuity of audit firm if possible, but avoiding long appointments.



Further information on the [auditor appointment process](#) is available on our website.

### **Responding to this consultation**

We are consulting you on the proposed appointment of Grant Thornton (UK) LLP to audit the accounts of South Hams District Council for five years from 2018/19. The consultation will close at **5pm on Friday 22 September 2017**.

If you are satisfied with the proposed appointment, please confirm this by email to [auditorappointments@psaa.co.uk](mailto:auditorappointments@psaa.co.uk). No further action is needed from you.

The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017. We will write by email to all opted-in bodies after this Board meeting to confirm auditor appointments.

### **Process for objecting to the proposed auditor appointment**

If you wish to make representations to PSAA about the proposed auditor appointment, please send them by email to [auditorappointments@psaa.co.uk](mailto:auditorappointments@psaa.co.uk) to arrive by **5pm on Friday 22 September 2017**.

Representations can include matters that you believe might be an impediment to the proposed firm's independence, were it to be your appointed auditor. Your email should set out the reasons why you think the proposed appointment should not be made. The following may represent acceptable reasons:

1. there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;
2. there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
3. there is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.

We will consider carefully all representations and will respond by Monday 16 October 2017 by email.

If your representations are accepted, we will consult you on an alternative auditor appointment between 16-27 October 2017. If your representations are not accepted, we will confirm this to you. You may choose to make further representations to the PSAA Board, providing any additional information to support your case.

We will write to all bodies to confirm the Board's final decision on the appointment of the auditor before 21 December 2017.

### **Scale fees for 2018/19**

We will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on our website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17. Further [information on the audit procurement](#) is available on our website.

**Further information**

If you have any questions about your proposed auditor appointment or the consultation process, please email us at [auditorappointments@psaa.co.uk](mailto:auditorappointments@psaa.co.uk).

Yours sincerely

Jon Hayes  
Chief Officer

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Report to: **Audit Committee**

Date: **21<sup>st</sup> September 2017**

Title: **Strategic Risk Assessment - Regular Update**

Portfolio Area: **Strategy & Commissioning**  
**Cllr Keith Wingate**

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](mailto:Darren.Arulvasagam@swdevon.gov.uk)  
**01803 861222**

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## **Recommendations:**

1. 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 10<sup>th</sup> May 2012, this report forms the required six 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.

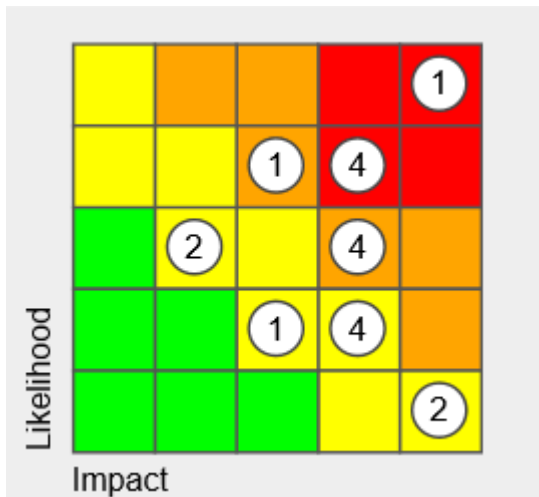
## **2. Background**

- 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 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. Scoring has changed from previous reports. More detail is now collected to more clearly define the risk impact – this is split between financial, legal/regulatory, health & safety, reputation, morale/staffing, service quality. To create a risk score, the likelihood is multiplied by the impact “worst child”.
- 3.5. A heat map of the risks is shown below, this shows the number of risks and where they appear on the 5 x 5 matrix:



**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 of 16 and over. 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.
<b>Comprehensive Impact Assessment Implications</b>		
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

### Supporting Information

#### **Appendices:**

Appendix 1: Corporate Risk Report

Appendix 2: Risk Scoring Matrix

#### **Background Papers:**

- Joint Risk Management Policy

### Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off	<b>Yes</b>
Data protection issues considered	<b>Yes</b>

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Appendix 1 - SHWD Corporate Risk Report

#	Risk Title	Description	(What is / Are the) Uncertainties	Impact							Risk Score	Mitigating Actions / Internal Controls	Latest Note	Linked Actions/Projects
				Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing				
1	Adherence to Medium Term Financial Strategy (MTFS), due to council decisions, changes in Government Policy and/or Income Streams	Failure to sustain a robust on-going medium term financial strategy with adequate reserves to meet unforeseen circumstances, due to cost pressures and a reduction in income targets, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFS, particularly if national/regional businesses successfully appeal against business rate valuations	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. Reclassification of waste classes by the Environment Agency could see items becoming recoverable rather than recyclable material, e.g. leaf sweeping could reduce recycling rate by about 5% in West Devon and 1% in South Hams. It is as yet unknown if and when such changes may take place. 100% local business rate retention is subject to consultation and the impact on LAs in unclear.	5	5	4	4	4	2	4	25	SLT preparing options for decision via JSG and discussion at budget Workshops held in Sept/Oct 2017. Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council are not intending to rely heavily on sources of income which may not be sustainable. SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFS. Latest budget reports approved by both Councils in February 2017 after member workshops in October 2016 and result of 4yr Government Finance Settlement communicated.	Interdependency between the finances of the two councils, due to the extent to which services have been shared – SHDC generated annual savings of £3.9m and WDBC generated savings of £2.2m pa from shared services and single workforce. If one council were to be unable to balance its budget, it would have a detrimental effect on the other council. Out to public consultation re Single Council; WDBC have approved £25m borrowing for commercial property acquisition. JSG have recommended to Council the commissioning route for frontline commercial services. Budget workshop to be held in both councils during Sept / Oct to discuss possible income / service reduction options. Less favourable settlement over NHB and decision not to implement LACC. Govt undertaking a fair funding review. Report to the Council in Sept 17 to recommend being part of a Devonwide Pilot Bid for business rates for 2018/19. There is uncertainty over the level of public sector pay rises which is subject to national negotiation.	Hold budget workshop (LB); Analyse output from public consultation (SLT);  Commence commissioning Dialogue where legally required (HD); for other services, consider alternative delivery & partnering mechanisms to ensure best value (SLT); SLT to continue to ID other options
2	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.	4	3	2	4	4	2	16	JLP Submitted to PINS for examination, but more work required on evidence base for housing need assessment.	JLP Submitted. Evidence base weight is stronger than previous. However, lack of housing position statement on 5 year land supply (particularly for WD) means councils are vulnerable to increased appeals (particularly in SHDC) and maybe designation (in WDBC).	TJ to write housing position statement and pass through each council for approval. Due: complete by October	
3	Political commitment for change	On-going political commitment to support changes needed for ongoing financial sustainability & community resilience	Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	4	4	3	4	4	1	4	16	Regular leader & deputy meetings. JSG meetings held monthly. Regular surgery and informal sessions for wider membership.	Recognition of the importance of political leadership is being discussed with Leaders & deputies. More work required with Members to increase awareness of impact of the challenges faced.	Democratic Services (DW) to develop member training around the delivery of tough choices / leadership



Appendix 1 - SHWD Corporate Risk Report

#	Risk Title	Description	(What is / Are the) Uncertainties	Impact							Risk Score	Mitigating Actions / Internal Controls	Latest Note	Linked Actions/Projects
				Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing				
4	Governance: Adherence to Council policies & processes and Government guidelines	Failure to maintain effective Corporate Governance arrangements. 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 of customers and to manage customer feedback. There is a risk of failure to respond to changes and to recognise external influences such as changes in government policy; Risks of losing JRs, appeals and Ombudsman rulings	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 2010. To ensure that there is on-going review and self assessment of the effectiveness of governance arrangements within the Council. T18 programme rollout saw service levels reduce but these have now recovered	4	3	3	4	4	3	3	16	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 Committee established with wider terms of reference. External reviews including the Council's external auditors. Appropriate committee monitoring. Service based risk assessments and action plans, with a particular focus on high risk service activity. Training & Development plans being developed. Policies for H&S and wellbeing and lone working all being updated. Work underway in respect of data protection / GDPR readiness and audit completed. Stat officers panel set up and meeting qtrly. Internal audit programme of work confirmed for 17/18.	Particular area of improvement identified around s106 management / monitoring. O&S aware of issue and is requiring action. Embedding new process within organisation; Transformation Improvement board now in place. Additional resources recruited to ensure less impact on front line services. Internal audit programme in forthcoming year will help provide assurance. Regular Statutory Officers Group meet. RIPA training for key staff. Policies / Key Strategies being reviewed by CoPs with consultation where appropriate, e.g. Homelessness Strategy.	SP to recruit new role (if reqd) to manage /monitor s106 and prepare improvement plan for SLT signoff by end Oct.  Current gaps in s106 agreement register to be id & resolved, ensure accuracy of data & ensure monies received / held and ID (LB / SM)
5	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. This pressure was increased due to county and general elections in 2017	4	3	4	4	3	2	4	16	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. Plan to commence measuring customer satisfaction during 17/18. Increased customer engagement; new complaints policy in place. Ongoing review of internal and external policies.	External review of contact centre resulting in some perf improvements to messaging and call routing being made. Focus on staff training & perf mgmt for services delivered through own direct labour, other service improvements to be driven through commissioning cycle. Seeking to secure increase in Planning resources through 20% increase in fees. Mobile solution is in test, whitespace (in cab) technology now integrated into W2 workflow processes, already bringing benefits. Land charges solution now live. Call volumes reducing. Concerto software roll-out for assets is underway.	Work required to understand if any transitional resources need to be extended and if so, for what period and at what cost, due to further delays in ICT implementation and process handover (by HD / SM)  Performance T&F group to revisit reporting (HD & SM)

Appendix 1 - SHWD Corporate Risk Report

#	Risk Title	Description	(What is / Are the) Uncertainties	Impact							Risk Score	Mitigating Actions / Internal Controls	Latest Note	Linked Actions/Projects
				Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing				
6	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.	3	4	4	3	1	1	3	12	Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Regular monitoring reports to Members.	Case management resource has been supported by transitional resource which is due to run out. Continued management focus on programme delivery. Considerable engagement with Civica, some compensatory payments for back filing and resourcing from Civica. SLT have looked & deployed alternatives as required. Budget has been monitored & on budget.	Closedown report due in November - LB.  Work required to understand if any transitional resources need to be extended and if so, for what period and at what cost, due to further delays in ICT implementation and process handover (by HD / SM)
7	Inadequate Staffing Resources	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	3	3	3	3	2	2	4	12	Transitional resource & monitoring arrangements put in place. Staffing arrangements and GAP analysis completed in 16/17. Staff forum embedded; continued SLT engagement with unions and regular staff comms sessions held. Other comms media under review and several improvements made. Staff satisfaction survey re-run in April '17, actions and review underway. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme being developed by HR.	Apprenticeship numbers higher than ever. Staff forum working well. Staff Satisfaction survey results show improvement from last year, but still some concern noted re capacity from staff and members. External funding opportunities being exploited to get additional resources where necessary – eg. community housing, planning.	Work required to understand if any transitional resources need to be extended and if so, for what period and at what cost, due to further delays in ICT implementation and process handover (by HD / SM)  Continue monitoring transitional resources and work with ELT to highlight any capacity gaps. (CB)
8	Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occurring, 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	3	3	4	4	2	3	3	12	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 – Payroll & Creditors Payments	Annual work programme to address critical areas. ICT strategy adopted by both Councils. Going through procurement process for new infrastructure and backup infrastructure.	JK working with DCC to ensure BC plans are up-to-date and relevant. (JK to update SLT in Q4 17/18)

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## Appendix 1 - SHWD Corporate Risk Report

#	Risk Title	Description	(What is / Are the) Uncertainties	Impact							Risk Score	Mitigating Actions / Internal Controls	Latest Note	Linked Actions/Projects
				Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing				
9	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, GDPR, Data Protection Act, RIPA, Human Rights Act.	3	3	3	4	4	1	2	12	DPO now named and is member of SLT. 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 Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. All staff have been and new starters will be completing a data protection awareness course in via the Council's new eLearning tool.	Considering appointment of dedicated resource on a temp basis to ensure compliance with GDPR for readiness in May 2018. eLearning tool rolled out as part of new performance management system during 16/17. Virtual Information Governance COP instigated & meet every two months, review new GDPR legislation which is due to come into force in 2018, also ensure adherence to existing regulations & investigate any incident that occurs. All incidents are investigated by MO and actions advised to SLT.	DA to ensure that audit output on readiness for GDPR is delivered. (by May 2018)
10	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 resources and expectations during an event.	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	4	3	2	3	1	3	1	12	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	Key officers have had recent training on emergency response scenarios. Mild Winter 16/17. Torcross / Slapton works now completed. Emergency response plan updated	Key officers have had recent training on emergency response scenarios. Mild Winter 16/17. Torcross / Slapton works now completed. Emergency response plan updated
11	Procurement	The risk is that we don't follow procurement procedures. A number of contracts to be let by the Council over the next 2 year period which will be in excess of the EU procurement thresholds.	There are a number of contracts to be let by the Council over the next 2 year period which will be in excess of the EU procurement thresholds. These will require specialist input and project teams to ensure best value for money is achieved. Current level of procurement competence is unknown	2	4	3	3	3	2	2	8	The procurement elements required should be captured and prioritised within the service planning exercise being carried out currently. It is important therefore that the project mgmt of major procurements is robust. Dedicated resources have been recruited to ensure this is done.	Legal & procurement resource is temporary, therefore potential they might not be around throughout whole procurement process. It is important therefore that the project mgmt of major procurements is robust. Dedicated resources have been recruited to ensure this is done.	JS & NH to ensure that frontline services project remains compliant

## Appendix 1 - SHWD Corporate Risk Report

#	Risk Title	Description	(What is / Are the) Uncertainties	Impact							Risk Score	Mitigating Actions / Internal Controls	Latest Note	Linked Actions/Projects
				Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing				
12	Safeguarding	Council and/ or contractors fail to adhere to meet safeguarding obligations as set out in legislation such as Children Act 2004 section 11.	Do staff, members and contractors know what is required and how to react?	2	3	2	4	3	3	3	8	Policies in place and key staff & management have received appropriate training and contact details to spot and report safeguarding issues	ALL staff have now received training through staff briefings.	IB to ensure council risk is managed.
13	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	3	4	4	4	3	8	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	Virtual COP 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. Review in 3 months after H&S CoP embedded	Virtual Cop to keep SLT & O&S updated on a regular basis (inc H&S policy & Accident reporting) HD & IL
14	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	2	3	4	3	2	2	3	8	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.	Managed service agreement for 2 years agreed with FCC in place and operating stability running to April 2019. Agreement reached with Tadpool. Finalising finer details over Meadowlands with TCC. Contractor for leisure provision is in bedding down period. Contract monitoring is acknowledged as an area which needs strengthening across the Council. Temp procurement officer in place; work underway to find longer term solution.	CB to complete contractual arrangements with TCC over Meadowlands (by Oct '17)
Procurement provision to be secured for longer tem (NH)														
Clear contract Monitoring arrangements need to be developed (Jane Savage with key officer support depending on service)														
15	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	3	2						6	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	Control on this will form part of any competitive dialogue process that may arise as a result of Council decisions re frontline services	
16	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	3	2						6	Audit has highlighted generally ok. Management to remain vigilant; random spot checks where appropriate (e.g. expense claim forms)	Control on this will form part of any competitive dialogue process that may arise as a result of Council decisions re frontline services	

Appendix 1 - SHWD Corporate Risk Report

#	Risk Title	Description	(What is / Are the) Uncertainties	Impact							Risk Score	Mitigating Actions / Internal Controls	Latest Note	Linked Actions/Projects
				Likelihood	Financial	Service Quality	Reputation	Legal/Regulatory	Health & Safety	Morale/Staffing				
17	Financial Systems & Budget Monitoring	Financial Systems & Budget Monitoring	Can the current system, use of the system and our financial processes support transforming the way we manage our budgets and financial reporting. There is a risk that any changes could jeopardise year end processes.	2	3	1	2	2	1	2	6	Temporary resource has been brought in to drive process changes and recommend & implement changes to our set up of the financial system. S151 & CoP lead role now dis-aggregated, to provide more focus and resilience on each aspect. We are engaging with the system provider to review our system set-up through a process known as Assessment of Current Use (AoCU)	A clear plan of action is in place up until Christmas, so that the self-serve and payroll budgeting modules can be implemented on the finance system, training will also take place on self serve for all budget holders. Greater visibility of financials by budget holders.	Implement modules (PH); training to be conducted by Christmas (PH)
18	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.	1	3				5		5	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.	Asset Management Review underway. This will assist with the risk assessment in respect of the maintenance of all Council assets.	
19	Accounts not being published by the legal deadline due to earlier closedown timetable	There is a requirement that closedown of 17/18 accounts be brought forward 4 weeks to end of May 2018. The risk is that resourcing within the finance COP prevents closedown by the new government deadline.	Whether the new timetable is achievable for the existing team.	1	5	1	5	5	3		5	Finance COP will do mini-close in Sept 2017 to enable faster closedown at year end. Structural changes to split s151 and finance COP has enabled more focus on operational duties.	Finance has an early closedown timetable in place to ensure that the new timescales are met.	Mini closedown as at end September to be completed (PH) by Nov '17.

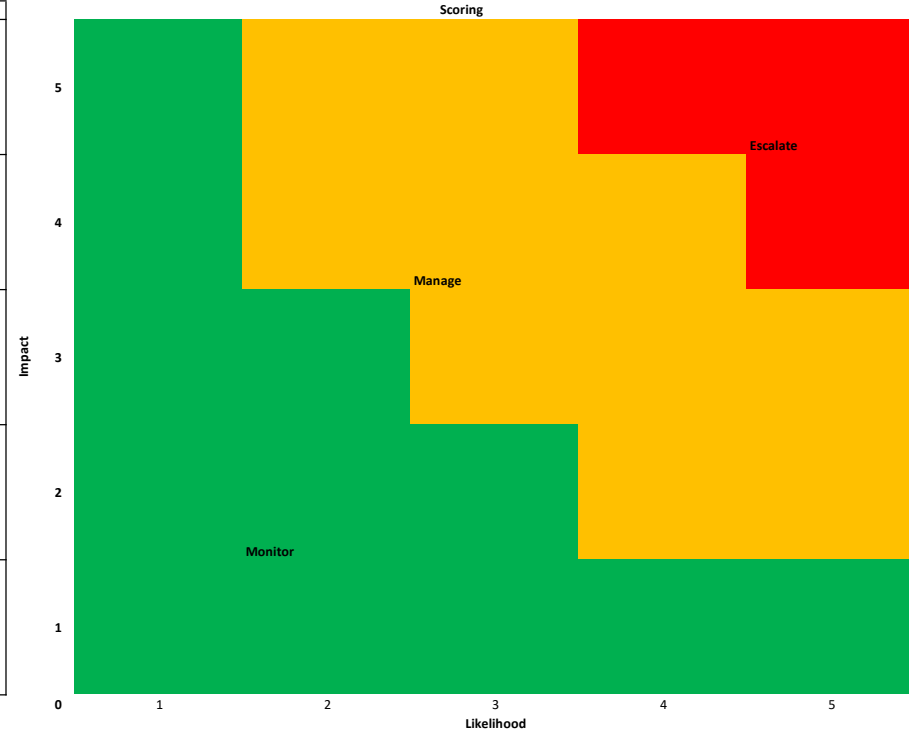
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Appendix 2 - Risk Scoring Matrix

Likelihood	Impact
Unlikely to occur under normal circumstances	Financial: Financial loss of less than £10k Service Quality: Drop in performance or delays to a process or temporary loss of an access route to a service Reputation: Limited local interest, single story Legal/Regulatory: Not reportable to regulator/Ombudsman, simple fix Health & Safety: Minor first aid required Morale/Staffing: Isolated staff dissatisfaction
Potential to occur however likelihood remain low	Financial: Financial loss of between £10k & £100k Service Quality: Drop in performance or delays to a service area or sustained loss of access routes for services Reputation: Local or 'industry' interest, single story over multiple news outlets Legal/Regulatory: Reportable to regulator/Ombudsman, no or little follow up needed Health & Safety: Minor injuries to employees or third parties Morale/Staffing: Pockets of staff morale problems and increased turnover
Likely to occur	Financial: Financial loss of between £100k & £500k Service Quality: Drop in performance or delays to delivering a wide range of services Reputation: Short term negative media exposure Legal/Regulatory: Regulator/Ombudsman report with immediate correction to be implemented, or risk of prosecution Health & Safety: Simple 'medical professional' type care for employees or third parties, e.g. GP visit, minor injuries unit visit Morale/Staffing: General staff morale problems and increased turnover
Most likely to occur	Financial: Financial loss of between £500k & £1Mill Service Quality: Major drop in performance or inability to deliver discretionary services Reputation: Sustained negative media coverage, or South West or 'affected industry' publication exposure Legal/Regulatory: Regulator/Ombudsman report requiring major project to correct or prosecution with fines, etc. Health & Safety: Limited hospital care required for employees or third parties Morale/Staffing: Widespread morale problems and high turnover. Not perceived as employer of choice
Almost certainly will occur	Financial: Financial loss of over £1Mill Service Quality: Major drop in performance or inability to deliver mandatory services Reputation: Long term negative media coverage, or national media exposure Legal/Regulatory: Significant prosecution or fines, incarceration of directors Health & Safety: Significant injuries or fatalities to employees or third parties Morale/Staffing: Some senior leaders leave / high turnover of experienced staff, insufficient staff to complete statutory functions

**Green** - These risks have low impact and/or low likelihood of occurring. Have a plan to prevent them escalating but only light touch monitoring required

**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



**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

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Report to: **Audit Committee**  
Date: **21 September 2017**  
Title: **Internal Audit Charter & Strategy 2017/18**  
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: **Dominic Measures** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**  
Contact: [Dominic.measures@swdevon.gov.uk](mailto:Dominic.measures@swdevon.gov.uk) **01803 861375**  
[Robert.hutchins@swdevon.gov.uk](mailto:Robert.hutchins@swdevon.gov.uk) **01392 383000**

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## **Recommendations:**

### **It is recommended that:**

- 1. The Audit Committee review and approve the Internal Audit Charter and Strategy 2017/18.**

## **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 2017/18.

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). Both the Charter and Strategy comply with the mandatory requirements of the Public Sector Internal Audit Standards.



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, Strategic Finance Lead, Strategy and Commissioning 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.

The internal audit charter and strategy for the financial year 2017/18 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 Section 151 Officer 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 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	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State requires every relevant local authority to "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".</p> <p>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.</p>
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

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>

## **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 South Hams District 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 Strategic Finance Lead, Strategy and Commissioning, 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**

The role of Internal Audit is to understand the key risks of the Council; to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge her statutory duties
- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems;
- support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate;
- provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for South Hams Council is provided by Devon Audit Partnership. We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of the Council, adding value whenever possible.

## **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 Auditors. 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**

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

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 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 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.

In December 2016, the Head of Assurance for Hertfordshire Shared Internal Audit Service completed an external validation of the Partnership. They concluded that;

*"It is our overall opinion that the Devon Audit Partnership **generally conforms**\* to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards".*

\* **Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

### **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.

**Devon Audit Partnership**

**August 2017**



**Auditing for achievement**

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## 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, the Strategic Finance Lead, Strategy and Commissioning, 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 Section 151 Officer 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 the Public Sector Internal Audit 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 Audit Manager will closely monitor the performance of the team to ensure agreed targets are achieved.

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 on-costs/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.

**Devon Audit Partnership**

**August 2017**



**Auditing for achievement**

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Report to: **Audit Committee**

Date: **21 September 2017**

Title: **Update on Progress on the 2017-18 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: **Dominic Measures** Role: **Audit Manager**  
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## **Recommendations:**

### **It is recommended that:**

1. The progress made against the 2017/18 internal audit plan, and any key issues arising are approved.

## **1. Executive summary**

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2017/18 to 24 August 2017, by:

- Showing the progress made by Internal Audit against the 2017/18 annual internal audit plan, as approved by this Committee in March 2017;
- Highlighting any revisions to the 2017/18 internal audit plan; and

- Providing an update on the Council's review of its approach to pursuing debtors, as requested by this Committee at its March 2017 meeting. In addition, latest available outstanding debt figures are provided.

## **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 2017/18 was presented to and approved by the Audit Committee in March 2017. Progress in the period up to 24 August 2017 has been in line with expectations and included completion of work carried forward from 2016/17. There has been slight impact due to sickness absence totalling 9 days (apportioned SHDC 7 days, WDBC 2 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. 20 days were allocated to this work for the year in the 2017/18 Audit Plan. However, 16 days have been spent to date and on that basis it is estimated that another 20 days, on top of that allocated in the plan, may be required for the rest of the financial year.

In response to the reduction in available days it is proposed that, in consultation with the Section 151 Officer, the audit plan will be reviewed and adjusted where deemed appropriate and/or the purchase of additional audit days to cover the shortfall. Any amendments will be agreed by the Senior Leadership Team. It should be noted that the Council is able claim funding against officer time spent on administering the LAG and the LEAF and this can be used to provide some backfill to cover the estimated additional 20 days required.

### **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 2017/18, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The 2017/18 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the position for each audit as at 24 August 2017.

**Appendix B** provides a summary of work where the planned work is complete but no audit report produced.

**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. 11 applications for exemptions to Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

#### **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	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to 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.</p> <p>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.</p>
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 2017/18 as approved by the Audit Committee on 23 March 2017.

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>



**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	
<b>2016/17 Plan</b>										
Main Accounting System (inc budgetary control)		■	■	■	■		■			
Development Controls – Planning Applications (Follow Up to Peer Review)		■	■	■	■	-	-	-	-	As at March 2017, our review found good progress being made to implement the recommendations from the Planning Improvement Peer Review.
Development Control – Planning Enforcement		■	■	■	■			■		
Section 106 Agreements		■	■	■	■				■	It is important to recognise that this audit took place prior to the closure of the 2016/17 accounts and the issues raised during the audit were promptly corrected by officers.
<b>2017/18 Plan</b>										
<b>MAIN FINANCIAL SYSTEMS</b>										
Main Accounting System (inc budgetary control)	20									
Creditor (Payments)	15									
Debtors (Income Collection)	15	■								
Payroll	15									
Business Rates	15									
Council Tax	15									
Housing Benefits	20									
Treasury Management	10									
<b>Main Financial Systems</b>	<b>125</b>									

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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	
<b>COMMERCIAL SERVICES</b>										
Depots & Stores (S.Hams)	10									
Salcombe Harbour (S.Hams)	10									
Dartmouth Lower Ferry (S.Hams)	8									
Environmental Services - Coastal Work (S.Hams)	8	■								
Commercial Waste Follow-Up (S.Hams)	4	■	■							
Household Waste Follow-Up (S.Hams)	4	■	■							
Recycling Waste Follow-Up (S.Hams)	4	■	■							
Health & Safety Follow-Up	3	■								
Grounds Maintenance Follow-Up	3	■	■	■	■			■		Previously Improvements Required
Markets	8									
<b>Commercial Services</b>	<b>62</b>									
<b>CUSTOMER FIRST</b>										
Asset Management	5									
Planning (Applications)	15									
<b>Customer First</b>	<b>20</b>									

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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	
<b>STRATEGY &amp; COMMISSIONING</b>										
Contract Management – Leisure Contract	20									
Waste Contract (W.Devon)										
Administration of Member Expenses	6									
Partnerships & Partnership Management	10	■								
Performance Management (KPI's & data quality)	20									
Risk Management Follow-Up	15									
Safeguarding (S11 self-assessment)	5	■								
<b>Strategy and Commissioning</b>	<b>76</b>									
<b>SUPPORT SERVICES</b>										
ICT Audit - Access Management	25	■	■	■	■		■			
ICT Audit - Change Management		■	■	■	■			■		
ICT Audit Health Check		■	■	■	■		■			
Corporate Information Management (DPA/FOI Frameworks)	10									
Business Continuity Follow-Up	5	■								
Capital Expenditure & Receipts	15									
Cash Collection	3									

**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	
Recharging	10									
Travel & Subsistence	18									
<b>Support Services</b>	<b>72</b>									
<b>OTHER ESSENTIAL ITEMS</b>										
Audit Management including:- - Audit planning, - Monitoring & reporting, - Audit Committee	28	■								Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 22 June 2017.
Annual Governance Statement	2	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2017 Audit Committee under separate cover
Exemptions from Financial Regulations	5	■								
Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	20	■								16 days spent on claims to date. Estimate further 20 days required – totalling 40 days in all.
Contingency & Advice	20	■								
<b>OTHER ESSENTIAL ITEMS</b>	<b>75</b>									
<b>Total Days</b>	<b>430</b>									


## Planned Audit 2017/18 – Final Reports

As at 24 August 2017, four final reports have been issued in respect of 2017/18 work. Reports finalised in the current year in respect of the 2016/17 audit plan which were not reported to the Audit Committee at the end of June are also included below.

Subject	Audit Findings	Management Response
2016/17 Audit Plan		
Main Accounting System (inc budgetary control)	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b></p> <p>Our Audit Opinion remains unchanged from last year but some controls have been improved and significant work was underway to provide a robust system plan to tackle these issues for 2016/17 year end and the new financial year, 2017/18.</p> <p>The Councils are aware of the opportunities to improve, such as investment in self-serve, development of budget holder’s knowledge and increasing the automated use of financial systems.</p> <p>The main issues, at both authorities, where action can be taken to further strengthen controls include:</p> <ul style="list-style-type: none"> <li>■ Ensuring reconciliations of control accounts, including the bank, continue to be undertaken but on a more timely basis, that they are fully documented, reviewed by a second officer and that these actions are evidenced. Consideration should be given to ensuring there is sufficient cover to prevent a single point of failure;</li> <li>■ Whilst work has progressed on developing the budget monitoring and reporting of the financial systems, due to factors such as the loss of staff and the coding project, delayed loading of budgets and balances brought forward and restructuring, there is the risk that budget holders are not provided with sufficient tools to adequately monitor their service.</li> </ul>	<p>The Councils went live with a new ledger coding structure in 2016/17, this has had an impact on the capacity of the team to progress other work such as “self-serve”. The Finance Team also lost key staff prior to the year end such as the Deputy 151 Officer and temporary agency resources were brought in to backfill.</p> <p>Plans are in place, for this financial year, to further develop ‘self-serve’ for services but it will depend on developing this within Support Services and specifically the Accountants first before rolling out to customers. We will develop a plan over the coming year.</p> <p>A process is in place to ensure reconciliations are regularly reviewed to confirm their accuracy. Additional training has been given to officers to ensure that they are competent in completing the reconciliations.</p> <p>Management will ensure that there are sufficient resources to complete all of the reconciliations in a timely manner in the future and provide the necessary resilience.</p> <p>The Deputy Section 151 Officer vacancy has been recruited to and this will strengthen arrangements going forward.</p>

Subject	Audit Findings	Management Response
	<p>There is a need to provide users, budget holders, accountants etc. with a greater ability to undertake tasks without the need for manual involvement and greater 'self-service'. This is being planned and developed and we would further endorse our support for the planned service changes.</p>	
<p>Development Control – Planning Enforcement</p>	<p><b>Audit Opinion – Improvements Required</b></p> <p><b>Conclusions</b></p> <p>The Audit Opinion above is due, in part, to the timing of the audit. There has been a significant period of change with the introduction of the T18 working model, Civica APP and W2 systems at a time of significant backlog. It is recognised that systems, procedures and processes are of a good standard that, once fully embedded and service performance improved, the benefits will be realised.</p> <p>Delegation of discretionary powers to its Officers is formally set out and the skills and expertise of officers are known and utilised. Tasks are assigned to the appropriate level ensuring best use of resources available. It is recognised that the implementation of the case management model within Development Management is new, under continuous monitoring and refinement.</p> <p>In addition to the legislation that defines the Council's discretionary powers in relation to planning enforcement, Development Management have a Local Planning Enforcement Policy, this is recognised as best practice. To further strengthen Planning Enforcement arrangements, the development of a Local Enforcement Plan should be considered, to communicate how, as a Local Planning Authority, they will manage planning enforcement pro-actively. Setting out service standards and developing the information provided to public via the website will raise the profile of the service and communicate the pressures it faces, allowing customers to make better informed decisions that, in turn, could potentially reduce the level of contacts made.</p> <p>Planning enforcement is undertaken proportionately in accordance with legislation and best practice. Appropriate outcomes are achieved through effective negotiation reducing the need, where possible, to take formal enforcement action. However, the overall caseload and backlog has meant the service is under pressure to undertake and conclude investigations in a timely manner. This continues to put the reputation of the Council and confidence in the planning system at risk. Council management recognise this and have taken action by making additional resources available, the</p>	<p>The Council to develop and publish an Enforcement Plan in accordance with Paragraph 207 of the National Planning Policy Framework (NPPF), this will tie in with the Council's published Enforcement Policy.</p> <p>In conjunction with the Enforcement Plan, consideration will be given to implementing and communicating priority categories for unauthorised development that will provide customers with better information and understanding of the service.</p> <p>In a bid to bring consistency and improve record keeping, document types with clear referencing have now been set up along with standard action notes to provide an audit trail of checks and tasks completed. There is greater clarity as to what documents should be produced and filed in W2 and Civic APP.</p> <p>Realistic target response times are to be set and communicated through the Enforcement Plan.</p> <p>Consideration is being given to developing a suite of local performance indicators covering a range of service delivery issues.</p> <p>Reporting tools are being used to produce management information from APP and knowledge and skills in these tools is being utilised to develop and improve the suite of reports.</p>

Subject	Audit Findings	Management Response
	<p>benefits of which had yet to be fully realised at the time of the audit</p> <p>At the time of the review, the IT systems used, Civica APP and W2, had not been sufficiently developed to provide effective management and or customer information. The use of complete planning enforcement data would further improve the quality and availability of appropriate level of management information to aid timely and effective decision making. Management should continue to develop, refine and fully utilise these systems. In addition performance management targets should be developed to provide focus and facilitate the analysis of work performance. This would enable the identification of trends, time taken on tasks and barriers that prevent the prompt resolution of cases. The findings should be used to implement continuous improvement in performance and service standards that will ensure high quality, timely investigations are conducted and prompt effective decisions taken.</p> <p>The Audit recommendations would, if considered, increase capacity within the team as well as improve management information, data quality, customer satisfaction and realise further efficiencies through better utilisation of resources.</p>	
<p>Development Controls – Planning Applications (Follow Up to Peer Review)</p>	<p><b>Audit Opinion – Good Progress</b></p> <p><b>Conclusions</b></p> <p>As at March 2017, of the 14 recommendations made:</p> <ul style="list-style-type: none"> <li>■ Two had been implemented;</li> <li>■ Eight had been implemented with action ongoing;</li> <li>■ Two had been partially implemented with action ongoing;</li> <li>■ One had not yet been implemented but a plan of action was being considered;</li> <li>■ One was no longer applicable.</li> </ul> <p>The new website went live in March with an improved Planning search facility. Work was ongoing to develop the full functionality of Civica APP and W2.</p> <p>A suite of key performance indicators have been developed and are reported to South Hams Development Management Committee and West Devon's Planning and Licensing Committee on a monthly basis.</p> <p>There has been a clear drive to re-establish relationships and trust with Developers</p>	

Subject	Audit Findings	Management Response
	<p>and Agents as well as strengthening engagement with, and improving the provision of Planning information and delivery of training to Town and Parish Councils.</p> <p>Site visit protocols have been reviewed and a new process introduced to improve the efficiency of decision making by speeding up the process. Through conducting appropriate and necessary site inspection in advance of the Development Management Committee process, it should prevent applications from being deferred to the next Committee date, reducing the impact on the time of all interested parties.</p> <p>At the time of our review in March 2017, there had been limited progress in reviewing the pre-application service, as resources were focussed on performance with regard to determining planning applications and delivery of the Joint Local Plan. However, it was recognised that sufficient consideration had been undertaken to make sure that this is looked at in a wider context to ensure the future pre-application process delivers a high quality service to customers as well as maximising cost/benefit opportunities and mitigating risk to the Councils.</p>	
<p>Planning Policy –Section 106 Agreements</p>	<p><b>Audit Opinion – Fundamental Weaknesses</b></p> <p><b>Conclusions</b></p> <p>Our testing has confirmed that there is a process in place for the recording and monitoring of Section 106 Agreements and the distribution of funds. The review found, due to a lack of resources, there are potential weaknesses in the Councils’ arrangements for monitoring developer contributions which could lead to amounts that are due not being promptly identified.</p> <p>Reliance is placed on recording commitments and payments only when received or invoiced and, without the resources to monitor all obligations and “triggers”, there could be a risk that transactions are not allocated in the correct accounting period.</p> <p>The Councils are in the process of appointing a new Section 106 officer role, within Support Services, whom it is envisaged will enable;</p> <p> Improvements to the central recording and reporting of S106 Agreements and the coordination with associated services. This could potentially mean</p>	<p>The Council is recruiting a specific Section 106 officer based within Support Services. Their role will be to evaluate the system of recording S106 agreements and managing the financial requirements. A process map will need to be constructed to identify the areas where improvements can be made and benefits to the procedure achieved. It is likely this role will be recruited in September and an enhancing system operating in the new year.</p> <p>The system of recording S106 transactions will be reviewed to determine the most efficient method and system to use. In the meantime, all current S106 agreements, including financial commitments, are now documented and recorded on a central register. This will be a role for the new officer to maintain.</p> <p>The new officer will investigate better methods of identifying when obligations have started and trigger points reached, utilising the systems and data already captured across the authorities.</p>



Subject	Audit Findings	Management Response
	<p>improving the current system, and integrating with relevant supporting systems such as Land Charges, and/or embarking on a whole new system;</p> <ul style="list-style-type: none"> <li>■ Better identification and reporting of trigger points and the further improvement of officer monitoring and inspection of developments. This is fundamental to ensuring that monies are promptly received and recorded; and</li> <li>■ Better understanding of the accounting principles; when the funds are expected, received and spent.</li> </ul> <p>It is important to recognise that this audit took place prior to the closure of the 2016/17 accounts and the issues raised during the audit were promptly acted on by officers and we have not found any control weaknesses within the recording or seeking payment process, once a S106 Agreement is entered onto the debtor system and an invoice is raised.</p>	<p>Management support the idea of training for certain key officers involved in the processing of S106 funds to enable improved understanding of the financial requirements and how they will support the production of financial statements.</p> <p>Significant work was carried out by a small group within the Finance Team to ensure the correct cut off of Section 106 monies was reflected in the accounts. The accounts have since been audited by KPMG and they have not identified any issues with the accounting of Section 106 contributions.</p>
<p>2017/18 Audit Plan</p>		
<p>Grounds Maintenance (Follow-up)</p>	<p><b>Original Audit Opinion - Improvements Required</b></p> <p><b>Updated Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b></p> <p>Whilst a number of recommendations made in our original report had been actioned/implemented there were a number that had not.</p> <p>Those recommendation not yet implemented include:</p> <ul style="list-style-type: none"> <li>■ an accurate inventory to be maintained of all Grounds Maintenance equipment with a replacement value in excess of £100</li> <li>■ Ensuring that charges to customers are consistent and cover the Council's costs; and</li> <li>■ Arranging for invoices to be raised to customers promptly and in line with Financial Procedure Rules.</li> </ul>	<p>Efforts will be made to maintain an accurate inventory of equipment.</p> <p>Accountants are calculating standard charge out rates to be used for grounds maintenance and building maintenance works carried out for external customers. These will cover the Council's costs whilst allowing the Council to be more competitive when submitting quotes for work.</p> <p>Copies of the calculations and the basis of these will be retained.</p> <p>Invoices are now being assigned on a timely basis.</p>
<p>ICT Audit - Access Management</p>	<p><b>Audit Opinion – Good Standard</b></p>	<p>Repairs have been carried out to secure those rooms containing IT Hardware</p>

Subject	Audit Findings	Management Response
	<p><b>Conclusions</b></p> <p>We have identified areas where controls can be strengthened to support those already in place and to ensure that policies are put into practice, including:</p> <ul style="list-style-type: none"> <li>■ Procedures are put in place to manage the access rights of those officers moving post or changing responsibilities within the Councils;</li> <li>■ Regular reviews are made of individual officers' access rights to ensure continued appropriateness;</li> <li>■ Procedures are clarified to ensure that access rights of leavers are managed on a timely basis, from both the Councils' network and business systems;</li> <li>■ Staff understand their responsibilities with regards Data Protection and undertake best practice to manage confidential data; and</li> <li>■ Ensuring that rooms containing IT hardware are appropriately secured.</li> </ul>	<p>Management will renew efforts to ensure all staff complete the Data Protection e-learning module. All staff will be required to complete annual refresher training on information management.</p> <p>A review of Active Directory Groups and membership will be undertaken. The Customer Support team are reliant on HR, team leaders or managers advising of leavers, and when notified, they promptly remove them from Active Directory. It will be confirmed that the process of disabling inactive accounts after 30 days is working correctly.</p> <p>An automated report is to be set up to list all Active Directory accounts which have been inactive for 30 days or more. The report will then be reviewed by the Customer Support team, in conjunction with information from HR to determine which accounts should be disabled.</p> <p>Procedures for “on- and off-boarding” (the adding and removing of staff from systems) are under review, including those tasks completed by the Customer Service Desk, who it is felt should remove leavers’ access from all systems, not just Active Directory.</p> <p>There are relatively few movers within the organisation and most would be taking on additional responsibilities rather than completely changing them. The key issue for movers is the sensitivity of data to which they have access. The majority of data held by the Councils is personal but not sensitive.</p> <p>As part of a check to ensure the Councils compliance for the GDPR, it has been identified that reviews of business system access need to be undertaken.</p>
<p>ICT Audit - Change Management</p>	<p><b>Audit Opinion - Improvements Required</b></p>	<p>ICT are currently working with the Customer Support team to create a suite of procedures which will make up</p>

Subject	Audit Findings	Management Response
	<p><b>Conclusions</b></p> <p>Although working procedures have routinely considered the change management process within the Councils, these are at an early stage of being formalised and work in progress. Whilst procedures and responsibilities have been identified, the process has not yet been extended to all types of change and is not supported by software capable of recording and analysing change requests.</p> <p>Areas where improvements were identified include:</p> <ul style="list-style-type: none"> <li>■ Identification of System Business Owners/Users;</li> <li>■ Business User Confirmation of Customer Satisfaction;</li> <li>■ Staff Resource;</li> <li>■ Recording of Changes;</li> <li>■ Post-Implementation Review of Changes</li> </ul>	<p>a library of change management models including standard pre-approved changes. ICT staff are aware of the library of change control procedures and on-going training is provided where necessary in these procedures. In addition, these will be communicated to relevant non-ICT staff, particularly business system owners. A quality assurance process will be embedded to ensure that any non-compliance with procedures is identified on a timely basis.</p> <p>ICT is to identify all appropriate individuals deemed to be owners/users of each business system.</p> <p>It is intended to create a revised survey which will be automatically issued by the service desk software using Survey Monkey to obtain confirmation of success and user acceptance.</p> <p>In a small team there is inevitably a trade-off between support given to changes, business as usual, other improvements etc. A judgement will be made on a case-by-case basis, based on probability, risk, impact etc. Skills transfer is an on-going activity.</p> <p>The existing current solution for recording change requests is to be retained based on a cost - benefits analysis of purchasing a new system. It would be resource intensive and costly to procure a new service desk system.</p> <p>Informal post-implementation reviews are already routinely carried out. However, the consideration of a post-implementation review will be included in the template for major changes. Emergency changes are rarely required, but the change management process does accommodate a post-implementation review. It is not proportionate to carry out post-implementation reviews of standard changes, which by definition are low risk, low impact, repeatable changes.</p>

Subject	Audit Findings	Management Response
<p>ICT Audit Health Check</p>	<p><b>Audit Opinion – Good Standard</b></p> <p><b>Conclusions</b></p> <p>For most of the sub-systems considered as part of this audit, controls were in place and operating. However, in two cases - asset management and contract management - controls were less developed and there was scope for these to be improved and strengthened.</p> <p>Some of the other issues raised have already been identified by the ICT Management and work is either under way or planned to implement improvements. For several of the areas reviewed, it had previously been assumed by ICT Management that the service desk software, Sunrise, which was procured and implemented by previous ICT managers, would be used to manage ICT assets, inventories, contracts, change management etc. Unfortunately the system has been found to fall some way short of expectations, to such a degree that it is not practical to use for many of the intended functions. It is therefore used mainly for incident management.</p> <p>Alternative solutions, mainly spreadsheets, are being used to manage assets, inventories, contracts etc. It is acknowledged that these are not ideal and other solutions are being explored.</p> <p><b>Key Findings</b> The issues we wish to highlight include:</p> <ul style="list-style-type: none"> <li>■ Ensuring staff are fully aware of their responsibilities under the Data Protection Act and forthcoming General Data Protection Regulations (GDPR);</li> <li>■ Implementing policies and procedures for the management and retention of data and documents;</li> <li>■ The need for an accurate register of ICT assets to allow effective management;</li> <li>■ The standardisation of ICT system documentation to allow systems to be correctly re-configured or restored;</li> <li>■ The management of ICT contracts, particularly to identify those reaching their end date and which may require a procurement exercise if the service or system is to be continued;</li> <li>■ Formalising procedures in the event of a potential cyberattack and loss of IT systems;</li> <li>■ Confirming the on-going reliability of the backup system and consideration of</li> </ul>	<ul style="list-style-type: none"> <li>■ All staff have been required to complete DPA training on Learning Pool in 2017 and this must be repeated annually, with the module being revised for 2018 to incorporate the GDPR.</li> <li>■ The Information Governance Group have a remit which includes ensuring policies and procedures are in place to allow data to be managed in line with legislation.</li> <li>■ An officer has already been tasked with implementing all the recommendations regarding asset registers as a key priority. The shortcomings of the current arrangements for asset management are to be reviewed and revised procedures drawn up, to include recording of equipment assigned to staff, asset tagging and disposal records.</li> <li>■ ICT is currently reviewing documentation to ensure that it is written and stored in a structured way and is up to date. Consideration is being given to the use of a cloud-based storage solution for a range of ICT documentation.</li> <li>■ The current ICT contracts database (spreadsheet based) has been updated and simplified to make it much more user-friendly. It provides accurate forecasting of annual spend committed to contracts and renewals, but there is no automation of events such as forecasting contract expiry.</li> <li>■ IT system shutdown procedures to be written for a range of scenarios that may be most likely to occur and/or present the highest risk to the Councils. A formal Cyber Incident Response Plan will be put in place at the earliest opportunity</li> </ul>

Subject	Audit Findings	Management Response
	<p>disaster recovery exercises;</p> <ul style="list-style-type: none"> <li>■ Ensuring that adequate business continuity plans are in place;</li> <li>■ Placing the potential loss of IT systems on the corporate Risk Register; and</li> <li>■ Considering dedicated cyber insurance.</li> </ul>	

## **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 2017/18 – Work Complete (No Audit Report)

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<p>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.</p> <p>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 2016/17 financial year. The S151 Officer presented the 2016/17 AGS to the Audit Committee on 22 June 2017.</p>
<b>Exemptions to Financial Procedure Rules</b>	<p>11 applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>

## South Hams Audit Committee - 21<sup>st</sup> September 2017

### Strategic Debt Review update to 31<sup>st</sup> August 2017 Recovery Strategy

At the time of Internal Audit's original Strategic Debt Review audit report, it was anticipated that the Councils would take advantage of a trial period offered by a specialised debt recovery company, Agilisys, to determine their effectiveness in recovering all types of debt on behalf of the Councils.

Rather than paying a fixed fee, Agilisys would retain a percentage of each debt recovered, the percentage varying depending how easy or difficult the debt might be to recover. However, further analysis by staff revealed that the percentage retained, even on those debts deemed easier to recover, was found to be relatively high. This was also tempered by the fact that the Councils only retain approximately 9% of any Council Tax collected, the rest being passed largely to Devon County Council (DCC). Thus the situation would have arisen that, in some cases, Agilisys would retain a percentage fee larger than the 9% portion of Council Tax due to South Hams, who effectively would be bearing the cost of recovery on behalf of the County Council. The latter were approached but DCC were unable to make a contribution to the recovery costs when requested.

It has therefore been decided to create a centralised debt recovery team, which will be responsible for managing all types of debt across the two authorities from 1<sup>st</sup> October 2017. Those Case Managers who have, to date, been working in separate teams, have been brought together under the Revenues and Debt Recovery Case Management team, with a dedicated Team Leader, and will sit within Support Services.

The Support Services Case Management Manager (SP) has recently presented a Debt Recovery Action Plan to SLT which includes the above action as well as a number of others, for example:

- Creation of a centralised Debt Recovery Unit within Support Services by 1<sup>st</sup> October (as above);
- Recruitment of temporary staff resource for 3 months to actively pursue older debts;
- Enforce the withdrawal of services where appropriate, such as trade waste collections, early eviction from rented business properties;
- Apply interest charges on unpaid commercial debts;
- Use of Online Money Claims for legal action;
- Review all debt recovery procedures with a view to standardising these;
- Pro-active chasing of debt and full review of recovery procedures;
- Write off of unrecoverable debt;
- Introduce online direct debit collection of sundry debt;
- Data cleansing of the sundry debtors system;
- Produce guidelines for minimum acceptable payment arrangement and maximum time limits for arrangements, train customer service team to set up payment arrangements at first point of contact;
- Regular monitoring and chasing of broken arrangements;
- Improved use of Experian credit checking and recovery agents;

### Sundry Debts

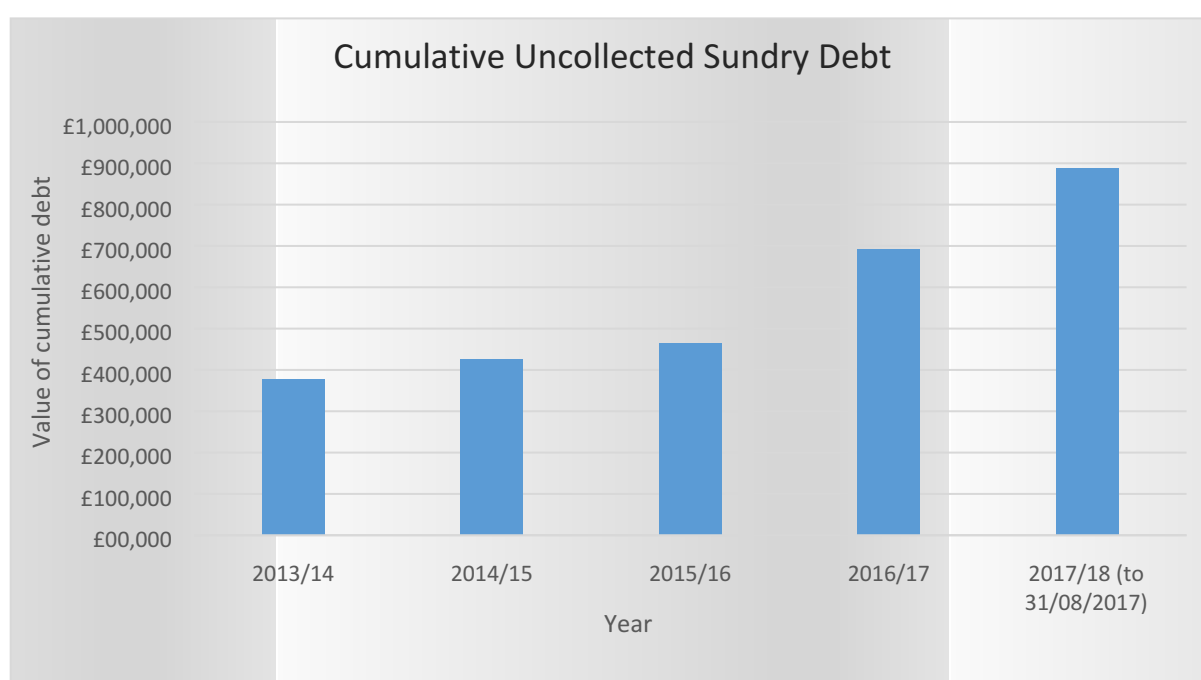


As shown in Table 1, the cumulative uncollected sundry debt for the authority has gradually increased year on year. The figures shown exclude any invoices less than thirty days old (recovery not commencing until this point) at 31<sup>st</sup> August 2017, but does include credits totalling -£27.7k owed by the Council to debtors.

The data can only represent the level of debt at any given point in time and so if a large invoice is raised or paid, then this can significantly alter the data.

The most significant overdue debts owed to SHDC as at 31<sup>st</sup> August 2017 are two for approximately £74k each, both S106 contributions, and £35k owed by an organisation in administration. There are several debts between £9k and £12k, the rest generally being for lesser sums.

Table 1: Uncollected Sundry Debt Values for South Hams at 31 August 2017

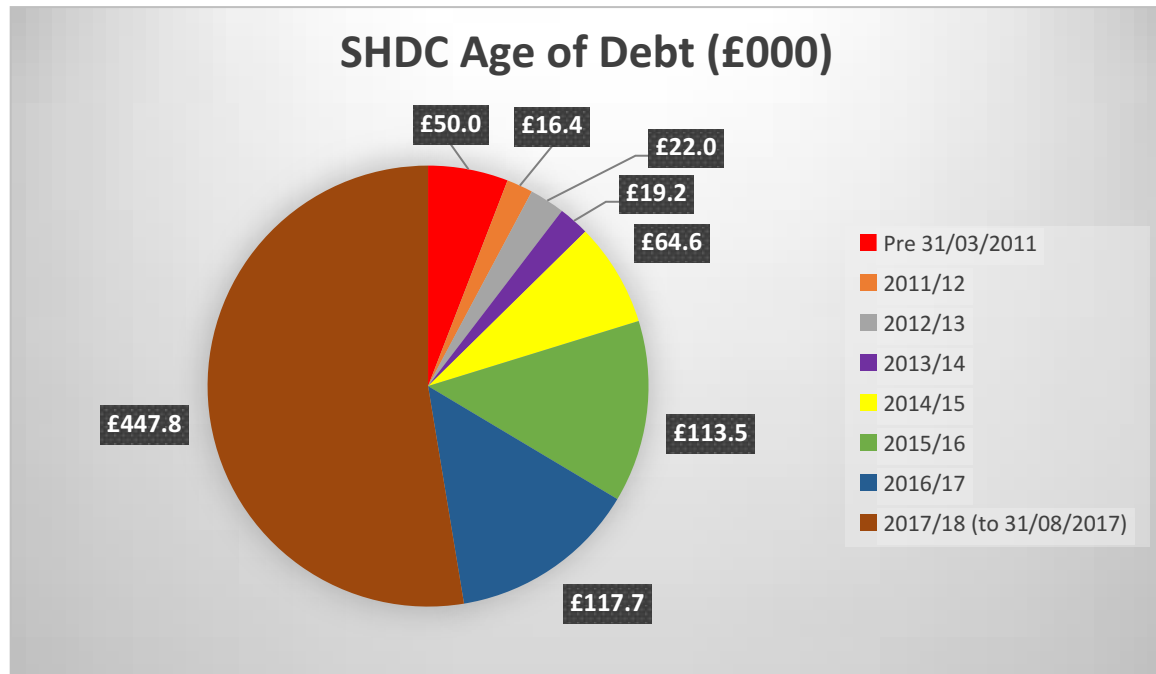


Source: Sundry Debtor System Reports

The increase in sundry debt levels is possibly due in part to an accumulation of aged and / or uncollectable debt which has not been written off. Since the latter part of 2016/17, resource has been focussed on attempting to recover large debts, as well as writing off those which are not recoverable, often because the debtor has entered into administration.

Table 2 shows the proportions of outstanding debt thirty days or more old at 31<sup>st</sup> August 2017. The figures are broken down by the year in which they were raised.

Table 2: South Hams District Council - Age of Debt Profile



Source: Sundry Debtor System Reports

The level of staff resource available to administer sundry debts had decreased between 2014 and 2016, from 2.5FTE to 0.5FTE. Coupled with the introduction of the Dartmouth BID, this, in effect, created insufficient resource for normal sundry debtor work. Some re-arrangement of resources, plus closure of the Dartmouth BID in September 2016, allowed some debt recovery work to be undertaken in late 2016/17, including targeted work to clear large debts.

We understand that more staff were also trained in active debt recovery, although resourcing has remained a significant issue.

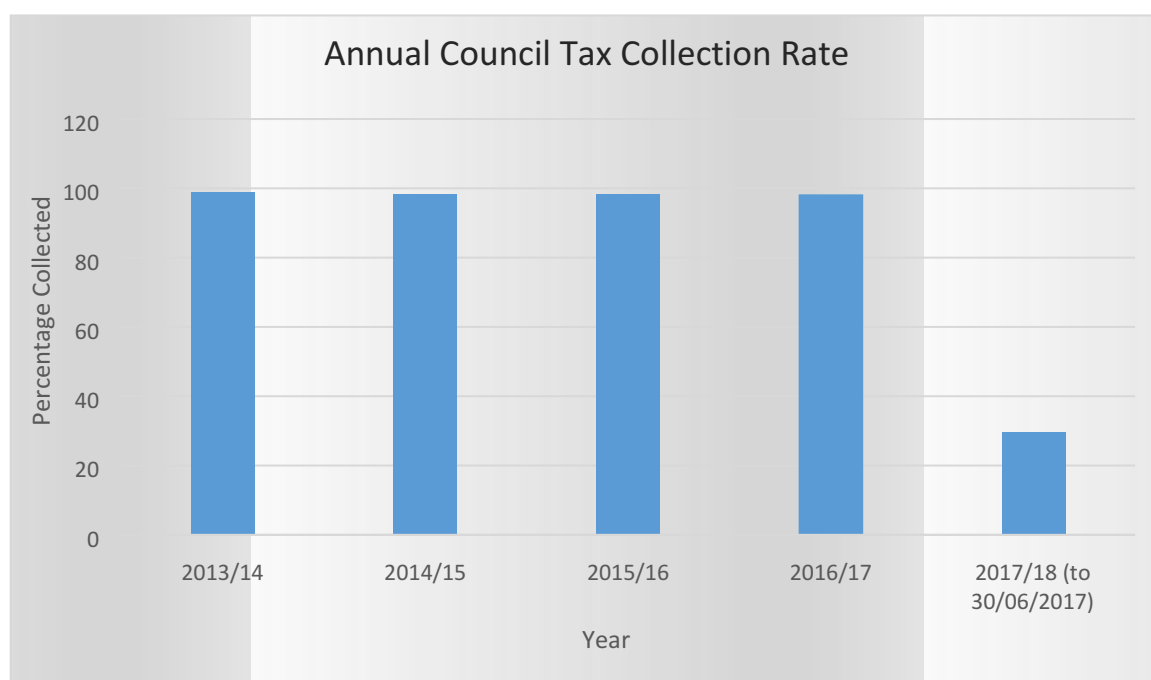
### Council Tax

The Council Tax collection rate for the authority is shown in Table 3. Recovery rates as at the end of 2016/17 compare well to both the national and the shires averages of 97.2% and 98.1% respectively.

Between 2015/16 and 2016/17 the South Hams collection rate reduced by 0.05% compared to 2015/16. This is partly attributed to the fact that since 2015 a contribution to Council Tax is payable by those residents of working age who are in receipt of Council Tax Reduction and also there were delays in issuing the first bills of 2016/17 which will have had a knock on effect on instalment due dates. The delay in issuing the bills was due to the changes to the billing template required to reflect the Adult Social Care precept.

The most recent data available for 2017/18 at the time of writing is to 30<sup>th</sup> June 2017. At this point 29.7% of South Hams Council Tax has been collected against a target of 29.6%. The target collection rate is based on the actual collection rates for the equivalent month in the previous year.

Table 4: South Hams Annual Council Tax Collection Rate at 30 June 2017



Source: Covalent performance indicator data

The amount of staff resource available to recover unpaid Council Tax had reduced slightly since the organisational restructure.

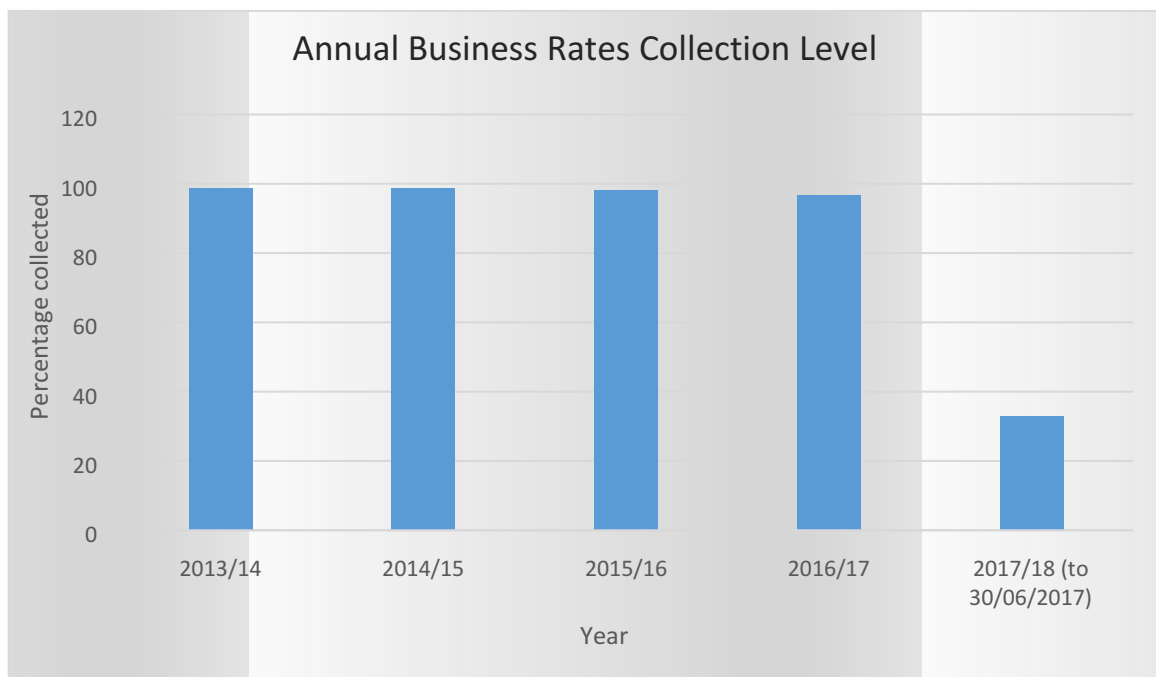
**Business Rates**

The Business Rates collection level for the authority is shown in Table 4. This was reasonable as at the end of 2016/17, falling only slightly under both the national and the shires averages of 98.2% and 98.4% respectively.

The collection rate reduced from 2015/16 to 2016/17 by 1.35% for South Hams. This is attributed to several causes. A mid-year national revaluation of medical centres led to a significant number of over-payments having been made and a few large companies have paid their rates later than expected, including one with whom it has been agreed that the 2016/17 debt can be cleared in 2017/18.

The most recent data available for 2017/18 at the time of writing is to 30<sup>th</sup> June 2017. At this point 32.8% of South Hams Business Rates has been collected against a target of 28.4%. As for Council Tax, the target collection rates are based on the actual collection rates for the equivalent month in the previous year. Given that the collection rates were a little suppressed for 2016/17, it would be anticipated that, all things being equal, collection rates exceed targets in 2017/18.

Table 4: South Hams Annual Business Rates Collection Level at 30 June 2017



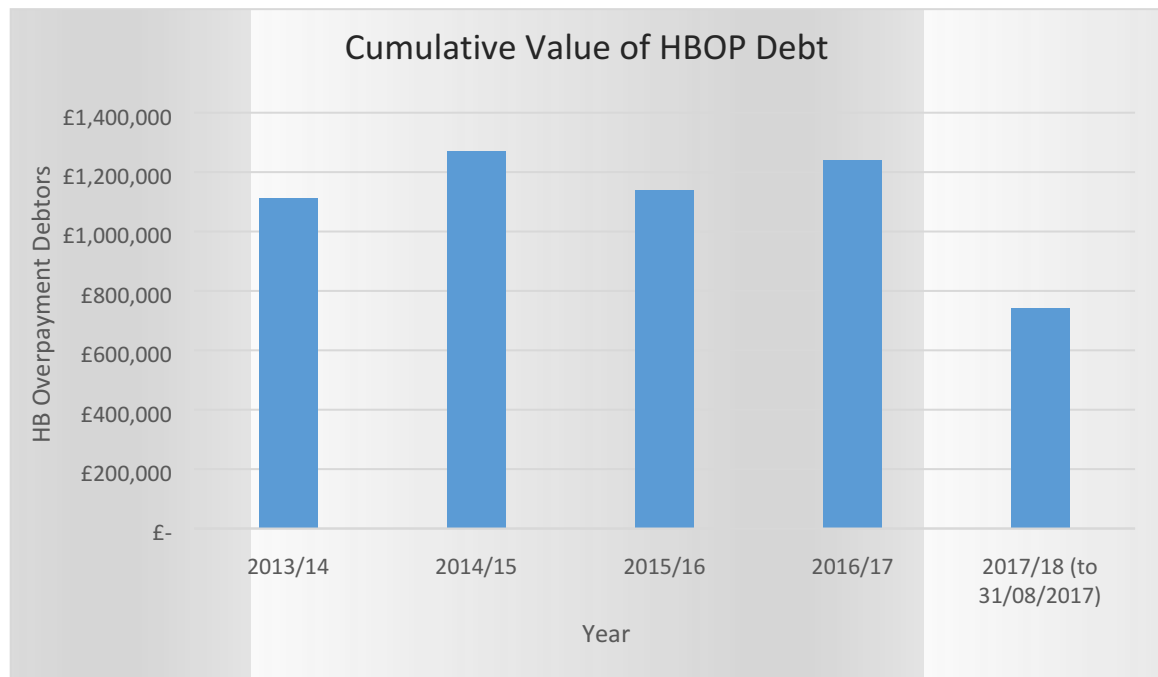
Source: Covalent performance indicator data

The same team responsible for Council Tax recovery have also been responsible for Business Rates recovery.

**Housing Benefit Overpayments (HBOP)**

Table 5 shows levels of HBOP debt since 2013/14 to the 31<sup>st</sup> August 2017. The reduction in HBOP debt from 2014/15 to 2015/16 may in large part be due to a significant number of write offs that were made in that period. We understand that HBOP debt levels may have increased in 2016/17 partly due to the use of RTI (real time information). This has identified unreported changes of circumstances which have resulted in overpayments.

Table 5: South Hams Housing Benefit Overpayments at 31 August 2017



Source: Accounts Closedown working papers and Benefits system reports

South Hams HBOP debt increased by 8.67% between 2015/16 and 2016/17,

The level of staff resource to recover HBOP debts increased from one part time officer during 2013/14 and 2014/15, to one full time officer since 2015/16, with an experienced officer being engaged since early 2016/17 to work solely on HBOP recovery.

This will have contributed to the decrease in HBOP during 2017/18.