

West Devon Audit Committee



West Devon
Borough
Council

Title:	Agenda
Date:	Tuesday, 30th January, 2018
Time:	10.00 am
Venue:	Chamber - Kilworthy Park
Full Members:	<p>Chairman Cllr Davies</p> <p>Vice Chairman Cllr Ball</p> <p><i>Members:</i> Cllr Cann OBE Cllr Stephens Cllr Hockridge Cllr Watts Cllr Lamb</p>
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

1. Apologies for absence

2. Declarations of interest

Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting.

If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda then please contact the Monitoring Officer in advance of the meeting.

3. Items Requiring Urgent Attention

To consider those items which, in the opinion of the Chairman should be considered by the Meeting as matters of urgency (if any).

4. Confirmation of Minutes

Meeting held on 19 September 2017

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5. KPMG Annual Audit Letter and Closure of the Audit Letter;
Report of KPMG

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6. KPMG Certificate of Claims and Returns -Annual Report 2016/17
Report of KPMG

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7. KPMG External Audit Plan 2017/18
Report of KPMG

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8. Update on the Appointment of the External Auditor for 2018/19

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9. Update on Progress of the 2017/18 Internal Audit Plan
Report of the Internal Audit Manager

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10. Treasury Management Mid-Year Review
Report of the Internal Audit Manager

69 - 84

PART TWO – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PUBLIC AND PRESS ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED (if any).

The Committee is recommended to pass the following resolution:

“RESOLVED that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the Meeting on the grounds that exempt information may be disclosed as defined in the paragraph given below in bold type from Part I of Schedule 12(A) to the Act.”

11. Cyber Security - Verbal Update

This document can be made available in large print, Braille, tape format, other languages or alternative format upon request. Please contact the Committee section on 01822 813662 or email darryl.white@swdevon.gov.uk

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Agenda Item 4

At a Meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **19th** day of **September 2017** at **2.00pm**

Present: Cllr M Davies (Chairman)

Cllr K Ball	Cllr W Cann OBE
Cllr B Stephens	Cllr L Watts
Cllr B Lamb	

Officers in attendance: Executive Director –Service Delivery and Commercial Development
Chief Internal Auditor

Business Development Group Manager
Section 151 Officer
Finance COP Lead
Adam Bunting KPMG
Darren Gilbert KPMG

Also in attendance: Cllr C Edmonds (lead Hub Committee Member)

*** AC 12 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllr Hockridge.

*** AC 13 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 18 July 2017 were confirmed and signed by the Chairman as a correct record.

*** AC 14 KPMG EXTERNAL AUDIT REPORT 2016/17**

Mr Bunting & Mr Gilbert presented the External Audit Report to the committee. KPMG confirmed that they did not identify and audit adjustments on the Draft Accounts and they anticipate issuing an unqualified opinion on the Council's Accounts before 30 September 2017. For the year ending 31 March 2017, the Accounts reported an underspend of £70,000 in the General Fund during the year.

KPMG confirmed their conclusions (Page 12 of the agenda) in relation to the allocation of shared costs between West Devon and South Hams. Their report stated that:-

- They had reviewed the basis of allocation of shared costs between West Devon and South Hams and had found this to be appropriate and reflect the nature of the activities involved.
- They had 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 their work.

- They has also reviewed the shared services (non-salaries) and the costs had been reasonably apportioned between the two Councils. No issues were identified.

In summarising Mr Bunting gave an unqualified opinion. He also stated that KPMG anticipated issuing an unqualified value for money opinion. The Chairman acknowledged the hard work from the S151 officer and the finance team. The Chairman was also thanked for his work from a member of the committee.

It was then **RESOLVED** that

The External Audit report from KPMG be noted.

*** AC 15 KPMG: ROLE OF EXTERNAL AUDIT**

Mr Bunting gave the committee an overview of the role of the external auditors. He went on to explain that they looked for value for money and that procedures and processes were in place.

***AC16 ANNUAL STATEMENT OF ACCOUNTS 2016/17**

The S151 Officer took Members through the Annual Statement of Accounts 2016/17. It was noted by the Audit Committee that these were the same Accounts that the Audit Committee reviewed at their July 2017 meeting (the Draft Accounts) and had already gone through. There had been no changes (except minor presentational changes) to the draft Accounts presented. With no further questions raised;

It was then:

RESOLVED that

1. The wording of the Letter of Representation be approved (Appendix A)
2. The audited Statement of Accounts for the financial year ended 31 March 2017 be approved (Appendix B)
3. The Annual Governance Statement post audit (Appendix C); be approved by Members

***AC17 CONSULTATION ON AUDITOR APPOINTMENT FROM 2018/19**

Members were taken through the consultation of the appointment of Grant Thornton to audit the accounts of West Devon Borough Council from 1 April 2018 for a period of 5 years. It was reported that it was hoped there would be a fee reduction. Fee would be known by March 2018.

It was then:

RESOLVED

To accept the proposed appointment of Grant Thornton (UK) LLP to audit the Accounts of West Devon Borough Council for five years from 2018/19.

***AC18 SIX MONTHLY UPDATE – STRATEGIC RISK ASSESSMENT**

The Business Development Group Manager took Members through the Strategic Risk Assessment Update. A mini closedown in September and another in December would produce a faster closedown at year end. This is needed due to the closedown of 17/18 accounts being brought forward 4 weeks to end of May 2018.

It was then:

RECOMMENDED that

The Committee review the strategic risks and make recommendations to Council on any further action the Committee concludes should be considered.

***AC19 INTERNAL AUDIT CHARTER AND STRATEGY 2017/18**

The Chief Internal Auditor took members through the Internal Audit Charter.

It was then:

RECOMMENDED that

The Committee review and approve the Internal Audit Charter and Strategy 2017/18

***AC20 UPDATE ON PROGRESS ON THE 2017/18 INTERNAL AUDIT PLAN
(Includes update on Strategic Debt Review)**

The Chief Internal Auditor updated the Committee on the progress of the 2017/18 internal Audit Plan. It was reported that nine days of Audit time had been lost due to sickness. It was suggested that either a reduction in plan or a buy in of the days would cover this.

It was then:

RECOMMENDED that

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

(The Meeting terminated at 3.10pm)

Dated this



Annual Audit Letter 2016/17

West Devon
Borough Council

kpmg.com/uk

October 2017

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

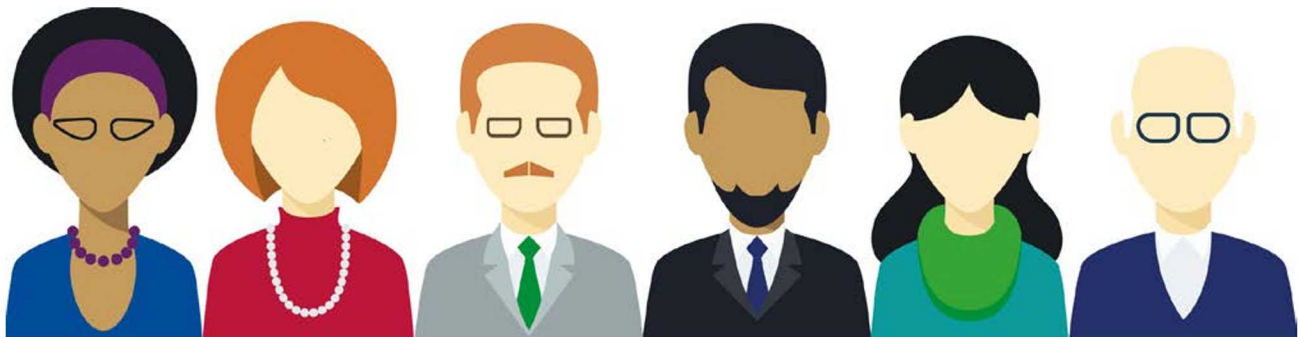
External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically,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

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

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Summary

This Annual Audit Letter summarises the outcome from our audit work at West Devon Borough Council in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.



VFM conclusion

We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2016/17 on 19 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

VFM risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- **Delivery of savings plans:** The Authority is facing significant savings requirements as a result of the ongoing reductions in central Government funding and identified the need to make savings of £0.9m in 2016/2017. As part of our work we also reviewed the budgetary monitoring and control and are satisfied that this is working effectively. We are satisfied that adequate arrangements are in place to identify savings plans and monitor performance against these throughout the year. However, like most bodies in the sector, the Authority will continue to face significant financial challenges in the future. It will therefore be vital that the Council maintains a strong focus on these challenges and takes the difficult decisions that will be necessary to address them; and
- **T18 Transformation Programme:** As part of its response to funding reductions, the Council has been delivering a transformation programme (“T18”) which has resulted in significant changes in the way in which the Council operates. 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. We are satisfied that appropriate approvals were sought from Members and that progress is being monitored and reported.

Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 19 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Section one

Financial statements audit

We identified the following significant audit risks in respect of our audit of the Authority's financial statements:

- **Local Government Pension Scheme triennial revaluation:** We reviewed the process used to submit payroll data to the Pension Fund and tested the year-end submission process and controls. The assumptions used by your actuary were compared to industry standards, as well as being reviewed by our internal actuarial team. We also substantively agreed the total figures submitted to the actuary to the ledger. No issues were identified as a result of this work.
- **Allocation of shared costs:** As part of our audit work, we reviewed the basis of allocation between West Devon Borough Council and South Hams District Council and re-calculated to ensure that the allocation was correctly reflected within the financial statements. No issues were identified as a result of this work.

We are pleased to report that we did not identify any material misstatements to the Authority's accounts.

We agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We raised no high priority recommendations as a result of our audit work.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

Certificate

Following completion of our work in relation to the Authority's Whole of Government Accounts we issued our certificate on 30 September 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

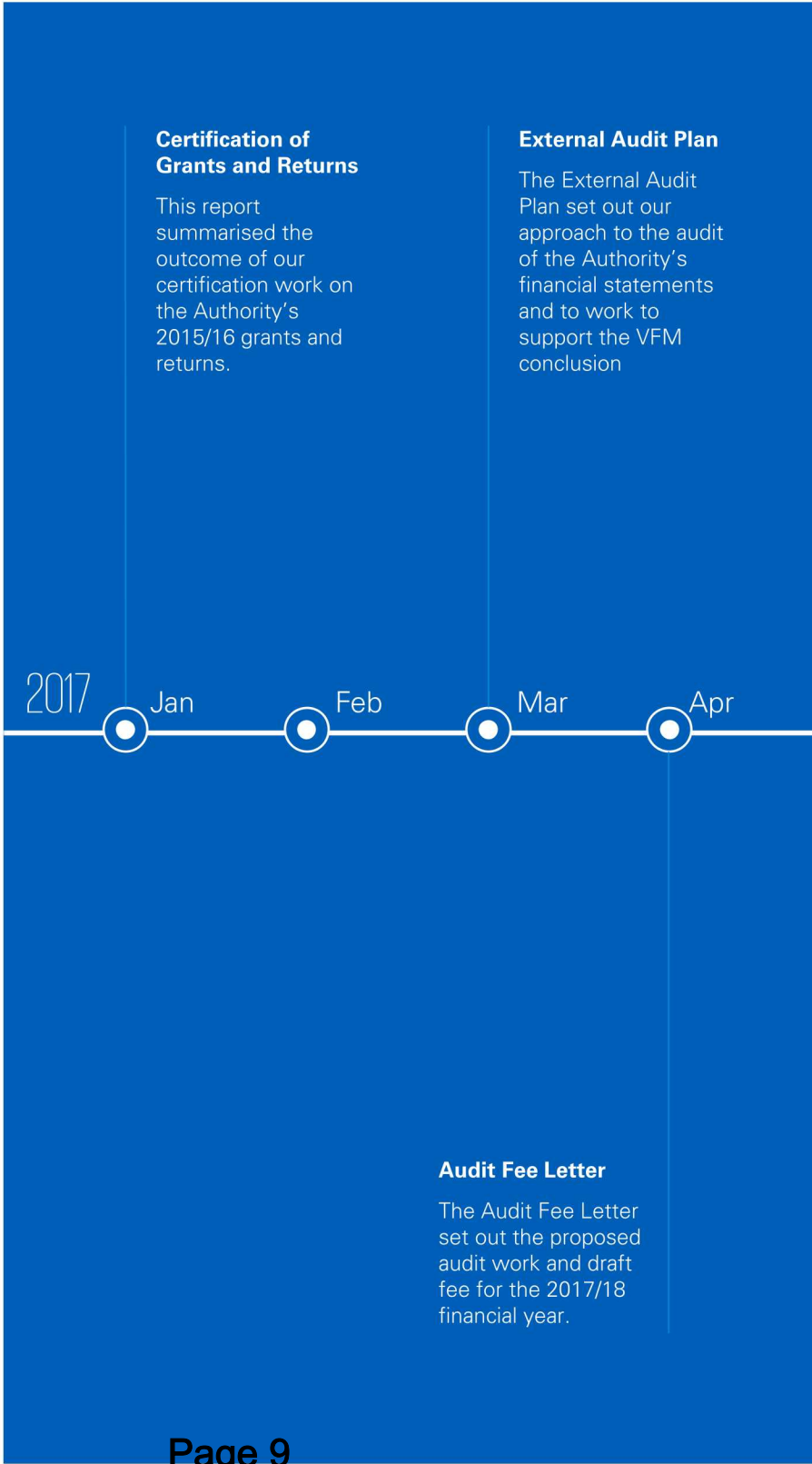
Audit fee

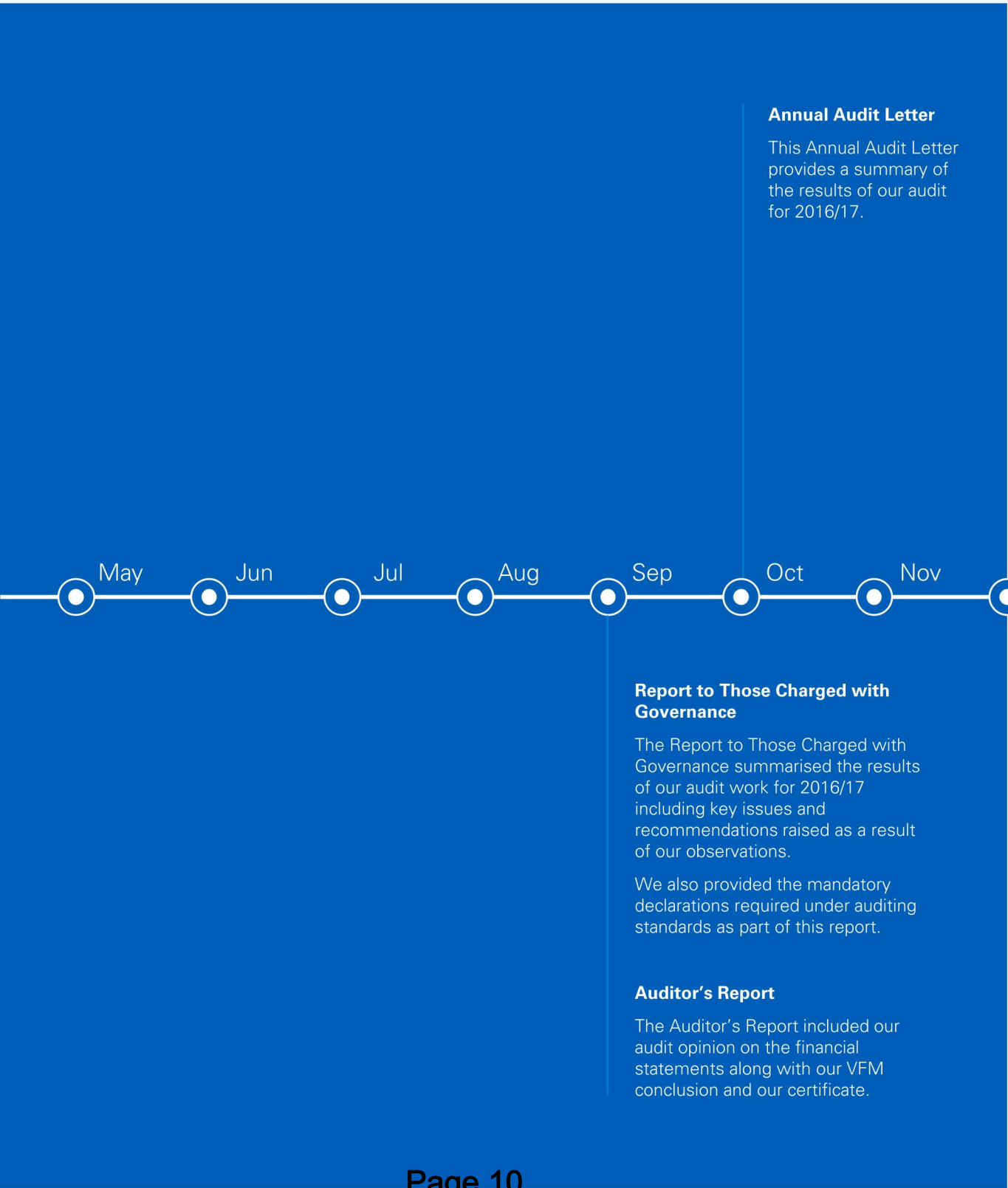
Our fee for 2016/17 was £39,396, excluding VAT, which is in line with the planned fee we set out in our Audit Fee Letter. Further detail is contained in Appendix 2.

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority’s website at www.westdevon.gov.uk.





Appendix 2

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit was £39,396. This is unchanged from our planned fee.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018 but is currently expected to be in line with planned fee of £5,340.

Other services

We did not charge any additional fees for other services.

External audit fees 2016/17 (£'000)



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Our ref WDBC/1617/GrantReport

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15 January 2018

Dear Lisa

West Devon Borough Council - Certification of claims and returns - annual report 2016/17

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2016/17.

In 2016/17 we carried out certification work on only one claim/return, the Housing Benefit Subsidy claim. The certified value of the claim was £13,654,531, and we completed our work and certified the claim on 27 November 2017.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work did not identify any issues or errors and we certified the claim unqualified without amendment.

Consequently we have made no recommendations to the Council to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2016/17 of £5,340. Our actual fee was the same as the indicative fee, and this compares to the 2015/16 fee for this claim of £5,630.

Yours sincerely



Darren Gilbert
Director

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External Audit Plan 2017/2018

**West Devon Borough
Council**
January 2018

Summary for Audit Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. This represents a significant change for the Authority and will need to be carefully managed in order to ensure the new deadlines are met. As a result we have recognised a significant risk in relation to this matter.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at £600,000.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £30,000.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated, as well as reviewing the basis of valuation for those assets that have been revalued;
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure completeness and accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work; and
- **Allocation of Shared Costs** – The Authority operates on a shared service basis with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each authority individually and then an exercise is undertaken to allocate them on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two authorities.

Summary for Audit Committee (cont.)

Financial Statements (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of additional audit focus have been identified as:

- **Commercial Investment** – During the year the Authority has approved a commercial property acquisition strategy. Although no acquisitions have been made at the date of audit plan, we are aware that there are two sites under consideration and which may be acquired before year-end and are likely to be material transactions. We will consider the accounting entries for any acquisitions as well as being mindful of post balance sheet events.

See pages 3 to 11 for more details

Value for Money Arrangements work

We have not yet completed our detailed risk assessment regarding your arrangements to secure value for money, however our initial VFM audit planning has identified the following VFM significant risk to date:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and also pursue income generation strategies. We will review the controls in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration relevant factors and sensitivity analysis. We will also consider the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year; and
- **Commercialisation** – As well as identifying savings targets, the Authority is investigating a range of commercial opportunities as a way of addressing its budget gap in future years. We will consider the way in which such opportunities are considered and the way in which Members are provided with the information necessary determine whether these projects should be pursued.

See pages 12 to 15 for more details

Logistics

Our team is:

- Darren Gilbert - Director
- Adam Bunting - Manager
- Kevin Goodwin – In-Charge

More details are in **Appendix 2**.

Our work will be completed in four phases from January to July and our key deliverables are this Audit Plan, an Interim Report / Letter and a Report to Those Charged With Governance as outlined on **page 19**.

Our fee for the 2017/18 audit is £39,396 (£39,396 2016/2017) see **page 18**. These fees are in line with the scale fees published by PSAA.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 issued to you in March 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit/review and report on your:

01

Financial statements :

Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02

Use of resources:

Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Audit Committee.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 12 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during January 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to 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. In line with our methodology, we carry 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.

As a specific element of this work, we consider the approach adopted in relation to the allocation of shared costs between the Wets Devon Borough Council and South Hams District Council (see page 9).

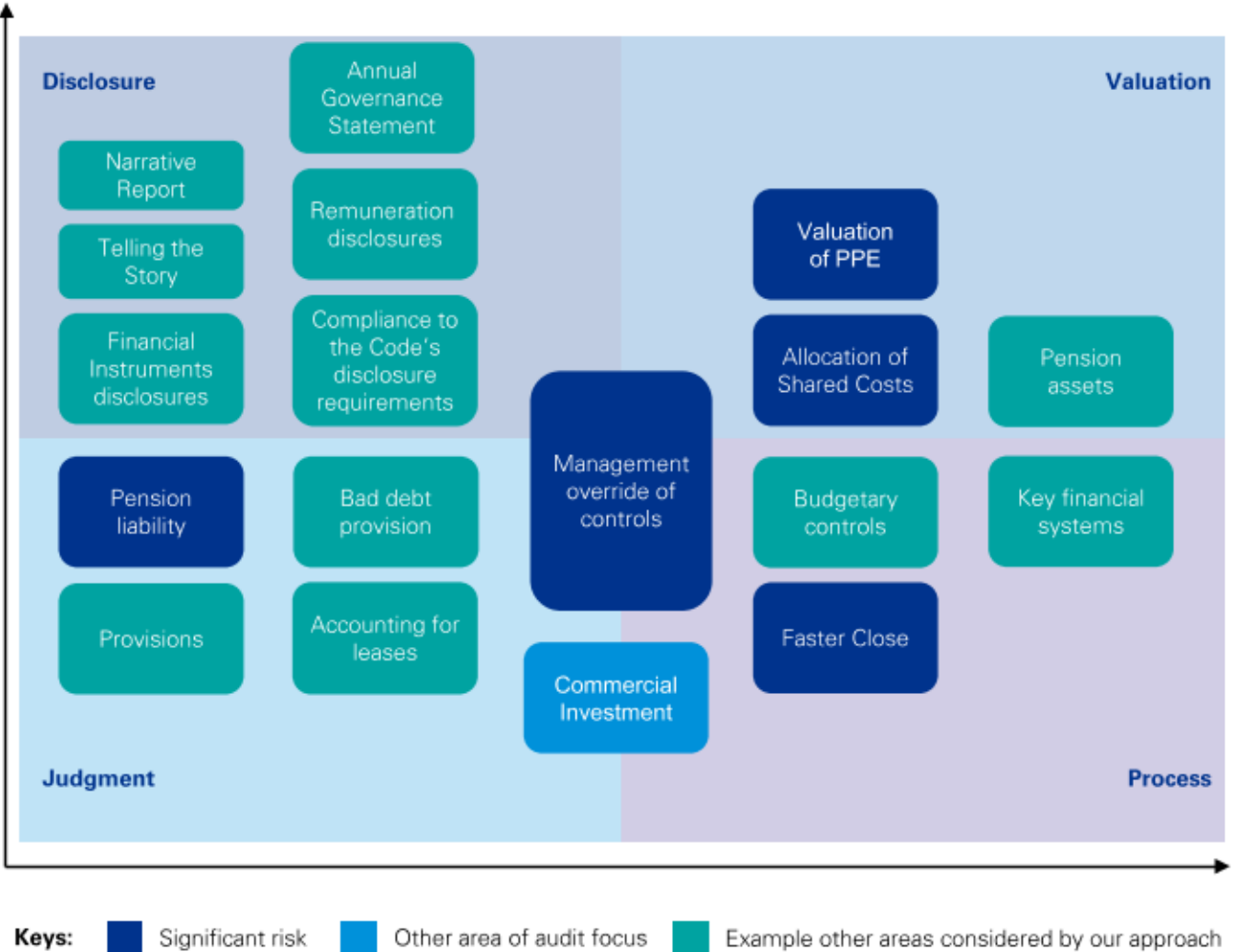
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	Valuation of PPE <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.</p>
Approach:	<p>We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).</p>

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Devon County Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This continues to form an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
Approach:	<p>As part of our work we will review the controls that the Authority has in place over the information sent directly to the Scheme Actuary (Barnett Waddingham). We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of Barnett Waddingham.</p> <p>We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by Barnett Waddingham.</p> <p>In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.</p>

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Faster Close</p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. Whilst we are aware that the Authority has begun to plan and prepare for the revised timetable, there is still significant amount of work to be completed.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none">— Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;— Revising the closedown and accounts production timetable to ensure that all working papers and other supporting documentation are available at the start of the audit process;— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
Approach:	<p>We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.</p> <p>Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.</p>

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	Allocation of Shared Costs <p>The Authority operates a shared service basis with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each authority individually and then an exercise is undertaken to allocate them on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two authorities. 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>
Approach:	<p>Building upon our work undertaken during the 2016/2017 audit, we will review the way in which shared costs have been allocated to the Authority and ensure that:</p> <ul style="list-style-type: none">— The basis of allocation is appropriate and reflects the nature of the activities involved;— The allocation basis, and any changes from prior year, has been approved appropriately by management and is subject to appropriate review; and— The allocation has been appropriately calculated and the resulting costs recognised.

Financial statements audit planning (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue:	Commercial Property Acquisition Strategy During the year Members have voted in favour of acquiring significant levels of investment properties both within the Authority's geographic area and outside of that area. Such investments will be funded by way of additional Public Works Loan Board borrowing. Whilst at the time of our audit planning no acquisitions had been undertaken, there were two properties under consideration with an estimated total value of £10 million. Depending upon the progress of the due diligence in relation to each of these properties there is the potential that acquisitions may occur before year end. In the event that either asset is acquired before year end this would represent a significant unusual transaction for the Authority due to the scale of the acquisition.
Approach:	KPMG will review any acquisitions of investment property made during the year and ensure that they correctly disclosed in line with the relevant financial standards, including review of acquisition documentation to ensure accuracy of valuation and review of accounting entries to ensure correct disclosure. In addition, and linked to our Value For Money work, we will review the due diligence process undertaken to ensure that it was appropriately robust and that the correct approval processes were followed, with sufficient information provided to allow an informed decision. We will also review any interest on borrowings to ensure this has been accounted for correctly.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £600,000 for the Authority's standalone accounts which equates to 1.9% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

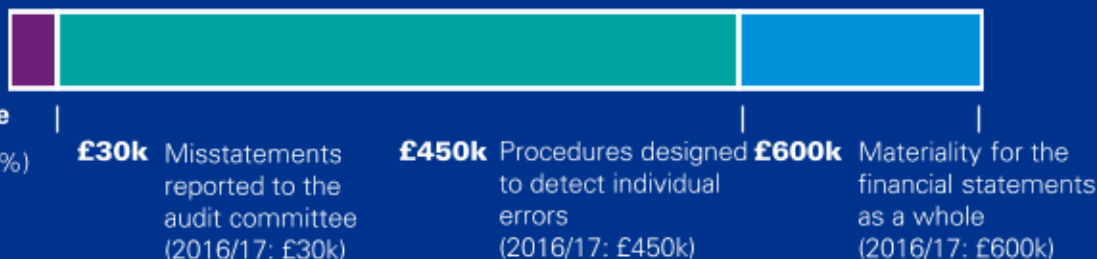
Prior Year Gross Expenditure: £32.4m

Materiality

£600k

1.9% of Expenditure

(2016/17: £600k, 1.9%)



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 unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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 £30,000.

If management has 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.

We will report:



Non-Trivial
corrected audit
misstatements



Non-trivial
uncorrected audit
misstatements



Errors and omissions in disclosure
(Corrected and uncorrected)

Value for money arrangements work

VFM audit approach

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.'

Overall criterion

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

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage



VFM audit risk assessment

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.



Linkages with financial statements and other audit work

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.



Identification of significant risks

Audit approach

The Code identifies a matter as significant '*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*'

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage



Assessment of work by other review agencies, and Delivery of local risk based work

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.



Concluding on VFM arrangements

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



Reporting

Audit approach

On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant VFM Risks

Whilst we have not yet completed our detailed risk assessment regarding your arrangements to secure value for money, our initial planning has identified the following VFM significant risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place.

Risk:	Delivery of budgets <p>The Authority identified the need to make savings of £565k in 2017/18. The current forecast shows that the Authority will deliver an underspend of approximately £50k.</p> <p>The Authority's budget for 2017/18 was approved at Council on 7 February 2017 and recognised a need for £565,671 in savings (in addition to those already delivered in prior years). The approved budget includes individual proposals to support the delivery of the overall savings requirement. The report to Council on 7 February 2017 also highlighted a budget gap of £834,458 for 2018/19. There is a likelihood that central government funding will reduce further and that the need for savings will continue to have a significant impact on the Authority's financial resilience.</p>
Approach:	As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. In addition we will consider the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects.
VFM Sub-criterion:	This risk is related to the following Value For Money sub-criterion <ul style="list-style-type: none">— Informed decision making;— Sustainable resource deployment; and— Working with partners and third parties

Risk:	Commercialisation <p>As well as identifying savings targets to meet budget gaps, the Authority is also investigating a range of income generating opportunities. These include a range of measures such as:</p> <ul style="list-style-type: none">— Acquisition of investment properties (approved during the year); and— Establishment of wholly owned subsidiary companies <p>Whilst such projects provide the opportunity for additional income generation, they also introduce additional risks that need to be managed.</p>
Approach:	As part of our risk based work, we will review the way in which Members and Senior Management have been informed of the risks and rewards of such projects in order to allow them to reach decisions in an appropriate manner. We will also consider the overall appraisal processes adopted and the stages at which Members are engaged and the way in which costs arising from such projects are monitored.
VFM Sub-criterion:	This risk is related to the following Value For Money sub-criterion <ul style="list-style-type: none">— Informed decision making;— Sustainable resource deployment; and— Working with partners and third parties

Other matters

Whole of government accounts (WGA)

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Authority. Deadlines for completion of this for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.



Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 issued to you in March 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £39,396 which is the same as that charged in 2016/2017.

Appendix 1:

Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

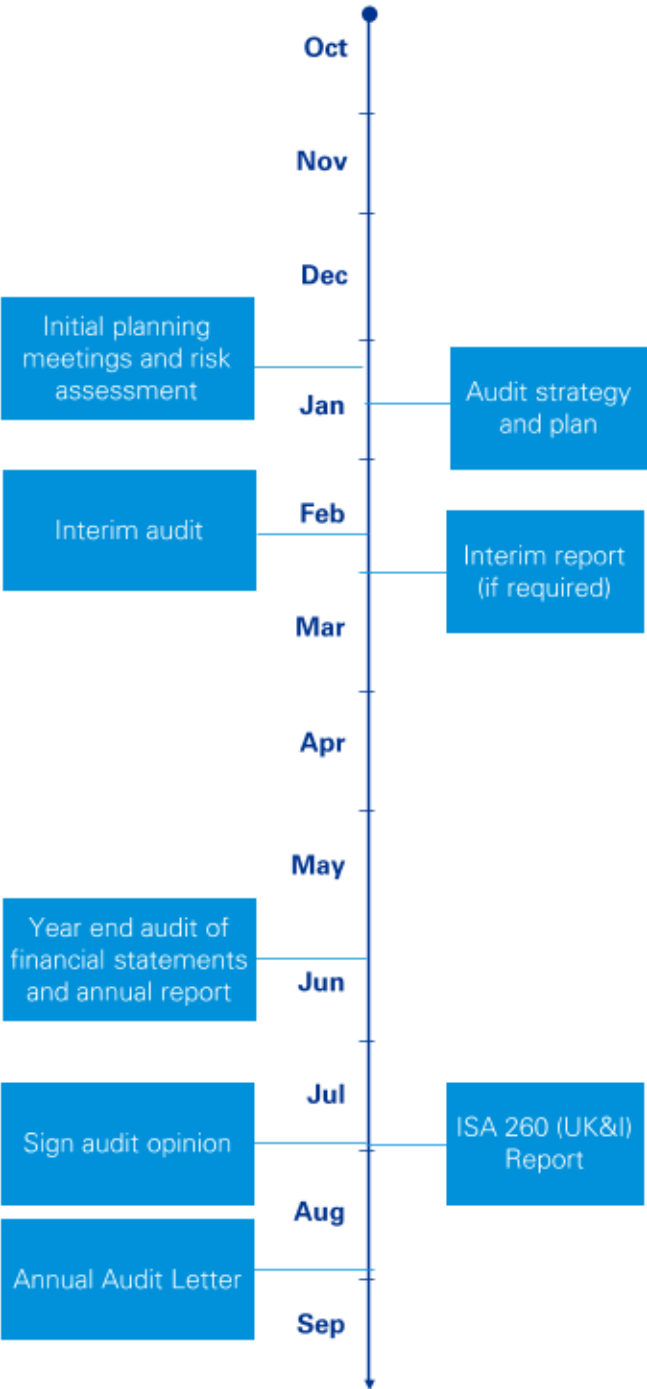
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals.



Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting

Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the West Devon Borough Council audit last year.



Darren Gilbert
Director

T: +44 (0) 292 046 8205
E: darren.gilbert@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee.'



Adam Bunting
Manager

T: +44 (0) 292 046 8003
E: adam.bunting@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with director to ensure we add value. I will liaise with the Finance Community of Practice Lead and other Executive Officers.'



Kevin Goodwin
Assistant Manager

T: +44 (0) 782 529 7061
E: kevin.goodwin@kpmg.co.uk

'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WEST DEVON BOROUGH COUNCIL.

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

Appendix 3:

Independence and objectivity requirements (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2018	Value of Services Committed but not yet delivered
Certification of housing benefit grant claim	None identified		Fixed Fee	£5,340	£5,630

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP



kpmg.com/uk



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

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

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West Devon Borough Council - this is a formal communication to the chief executive and chief finance officer to confirm the auditor appointment from 2018/19

Auditor appointment

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. I wrote to you on 14 August 2017 to consult you on the proposed appointment of Grant Thornton (UK) LLP as the external auditor of West Devon Borough Council from 2018/19.

I am writing now following that consultation to confirm the appointment of Grant Thornton (UK) LLP to audit the accounts of West Devon Borough Council for five years, for the accounts from 2018/19 to 2022/23. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the PSAA Board at its meeting on 14 December 2017.

Next steps

I have passed your contact details to the appointed firm and they will contact you about the arrangements for the audit in due course. In the meantime, if you have any questions about the appointment, please contact us by email at auditorappointments@psaa.co.uk.

Kind regards

Jon Hayes
Chief Officer

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Report to: **Audit Committee**

Date: **30 January 2018**

Title: **Update on Progress on the 2017-18 Internal Audit Plan**

Portfolio Area: **Support Services – Cllr C Edmonds**

Wards Affected: **All**

Relevant Scrutiny Committee: Overview and Scrutiny

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 **01803 861375**
Robert.hutchins@swdevon.gov.uk **01392 383000**

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 31 December 2018, by:

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

- Providing a further update on the Council's review of its approach to pursuing debtors and the latest available outstanding debt figures.

2. Background

The Audit Committee, under its Terms of Reference contained in West Devon 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 31 December 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 13 days (apportioned WDBC 3 days, SHDC 10 days) in the year to date.

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.

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 31 December 2017.

The reporting of individual high priority recommendations is set out at **Appendix B**.

This is an ongoing part of the report to advise the Audit Committee, in detail, of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

Appendix C 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. Seven applications for exemptions to Contract / Financial Procedure Rules have been received in the year to date, all but one 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

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

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	
2016/17 Plan											
Main Accounting System (inc budgetary control)		■	■	■	■			■			Summary presented to Audit Committee in September 2017
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. Summary presented to Audit Committee in September 2017
Development Control – Planning Enforcement		■	■	■	■				■		Summary presented to Audit Committee in September 2017
Section 106 Agreements		■	■	■	■					■	Summary presented to Audit Committee in September 2017
2017/18 Plan											
MAIN FINANCIAL SYSTEMS											
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	■									
Main Financial Systems	125										

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	
COMMERCIAL SERVICES											
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	■	■	■	■				■		Previously Improvements Required, however overall “direction of travel” is very positive. Summary in Appendix B below

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	
Grounds Maintenance Follow-Up	3	■	■	■	■			■			Previously Improvements Required Summary presented to Audit Committee in September 2017.
Markets	8										
Commercial Services	62										
CUSTOMER FIRST											
Asset Management	5										
Planning (Applications)	15										
Customer First	20										
STRATEGY & COMMISSIONING											
Contract Management – Leisure Contract Waste Contract (W.Devon)	20	■									Audit presence during the procurement phase of the Frontline Waste Services contract
Administration of Member Expenses	6										
Partnerships & Partnership Management	10	■	■	■	■			■			Summary in Appendix B below

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	
Performance Management (KPI's & data quality)	20										
Risk Management Follow-Up	15										
Safeguarding (S11 self-assessment)	5	■	■	■	■			■			Summary in Appendix B below
Strategy and Commissioning	76										
SUPPORT SERVICES											
ICT Audit - Access Management	25	■	■	■	■			■			Summary to Audit Committee in September 2017
ICT Audit - Change Management		■	■	■	■				■		Summary to Audit Committee in September 2017
ICT Audit Health Check		■	■	■	■			■			Summary to Audit Committee in September 2017
Corporate Information Management (DPA/FOI Frameworks)	10										
Business Continuity Follow-Up - Emergency Planning - Business Continuity	5	■	■	■	■						
								■			Original opinion of Improvements Required Summary in Appendix B below
										■	Original opinion of Fundamental Weaknesses Summary in Appendix B below

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	
Capital Expenditure & Receipts	15	■									
Cash Collection	3										
Recharging	10										
Travel & Subsistence	18	■	■	■	■				■		Original opinion of Improvements Required but the “direction of travel” is upwards Summary in Appendix B below.
Support Services	72										
OTHER ESSENTIAL ITEMS											
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, Progress report, Audit Charter and Strategy presented on 21 September 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	■									27 days spent on claims to date. Estimate further 13 days required – totalling 40 days in all.
Contingency & Advice	20	■									
OTHER ESSENTIAL ITEMS	75										
Total Days	430										

Planned Audit 2017/18 – Final Reports

As at 31 December 2017, nine 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 together with four reports covering the 2017/18 plan were reported to the Audit Committee at the end of September. Final reports issued since the last Audit Committee are included below.

Subject	Audit Findings	Management Response
2017/18 Audit Plan		
Health & Safety (Follow-up)	<p>Original Audit Opinion - Improvements Required</p> <p>Updated Audit Opinion – Improvements Required</p> <p>Conclusions</p> <p>Following the completion of our follow up work our audit opinion remains as 'Improvements required', due to a number of recommendations which remain in progress. However, the considerable amount of work undertaken by staff, largely under the guidance of the Health and Safety COP, should not be under-estimated. Significant improvements have been made since our last review, with further work planned. The overall “direction of travel” is considered to be very positive.</p> <p>An initial review of health and safety arrangements across the Council has been completed and up to date risk assessments made for the majority of functions. Staff training modules have been created on WorkPal and Safe Systems of Work developed for operational staff within Commercial Services.</p> <p>However, it is important that individual managers understand their on-going responsibilities, including the need to embed procedures to ensure regular reviews of risk assessments, workplace inspections, delivery of staff training etc.</p> <p>We have raised a number of recommendations, supporting the on-going work being led by the Health and Safety COP, as well as some additional considerations, including the following:</p> <ol style="list-style-type: none"> 1. Continuing to promote the Health and Safety Policy and associated Codes of 	<ol style="list-style-type: none"> 1. The staff survey demonstrated that over 90% of staff are aware of their health and safety responsibilities, but this needs to be improved. It will be ensured that health and safety information is included in future staff communications. Additionally, ICT will be asked to assist in making it a mandatory requirement to read high level health and safety documents and other risk assessments for higher risk areas (such as lone working) using “net consent” principles. 2. There is potential to develop a Learning Pool e-learning module for all staff, to raise awareness of existing health and safety responsibilities. The module could be mandatory and a record kept to show who had completed it. 3. SLT have recently attended a Health and Safety training course. <p>All managers who are responsible for staff have now received and passed a ‘Leading Safely’ course.</p> <ol style="list-style-type: none"> 4. A master list of risk assessments can be created and used to ensure timely reviews of existing risk assessments. Limitations exist around the Environmental Health COP Lead being able to identify whether or not any risk assessments are

Subject	Audit Findings	Management Response
	<p>Practice and making sure that all staff are aware of them;</p> <ol style="list-style-type: none"> Ensuring that all staff are aware of their responsibilities for health and safety matters as well as those risk assessments which relate to them; Provision of appropriate health and safety training for all staff; Completion of the outstanding risk assessment reviews which need to be made for some functions within Commercial Services; and Confirming managers have procedures in place to ensure that regular reviews are made of risk assessments, as well as associated Safe Systems of Work. 	<p>missing. The communication of individual risk assessments will rely on managers and supervisors (as nominated by Group Managers) in each area. This will be raised via the Health and Safety COP.</p> <ol style="list-style-type: none"> Each of these managers will be given an objective of ensuring that all appropriate risk assessments are carried out for their areas of responsibility, including following up any issues identified. They will also be required to feed back to the virtual H&S COP on their actions and the status of the risk assessments. <p>Specialist - Commercial Services (RH) is responsible for delivering Safe Systems of Work through "Toolbox Talks", ensuring that these are brought to the attention of all staff who must acknowledge their understanding.</p> <p>This is on-going work with a minimum of annual reviews for all relevant tasks, and more frequent reviews for higher risk areas.</p>
Partnerships & Partnership Management	<p>Audit Opinion – Good Standard</p> <p>Conclusions</p> <p>The Councils have undertaken significant work to identify and update their understanding and knowledge of partnerships over the last eighteen months and now need to use this awareness to develop the resources and structure to continue to effectively manage these partnerships and agreements with groups such as third sector organisations.</p> <p>We therefore identified areas in our report that have already been recognised as important to undertake but at the moment may not be at the forefront of the Councils plans. This includes key areas such as:</p> <ol style="list-style-type: none"> To ensure that there is sufficient resources and plans in place to make sure that partnerships are subject to robust management and governance; 	<ol style="list-style-type: none"> The Commissioning Manager, Strategy & Commissioning will continue to review partnerships and although not directly responsible for the management of agreements will develop and drive the management and governance agenda. In some cases, a review of funding is carried out as part of the Council's budget setting process. Service Level Agreements will be reviewed and updated where necessary. <p>Work will be undertaken by officers, and members</p>

Subject	Audit Findings	Management Response
	<ol style="list-style-type: none"> That funding is appropriate and that it provides value for money and continues to deliver the expected outcomes and performance; That partnerships or links to other organisations are clearly identified and the central register updated; Ensuring that current and future agreements and contracts are updated and appropriately authorised. Copies of all agreements should be held centrally in a recognised file, such as with Legal; and Those significant partnerships should be included in the corporate and service risk registers. <p>Since the issue of our draft report and the result of the One Council decision, progress in examining partnerships has slowed. Whilst there was agreement to setting up Task and Finish Groups, there has been no movement on this.</p>	<p>where appropriate, to update the Partnership Register.</p> <ol style="list-style-type: none"> Managers will be reminded of the importance of obtaining agreements and these should be filed centrally with Legal. The inclusion of significant partnerships on corporate and service risk registers will be raised with the Extended Leadership Team.
Safeguarding (S11 self-assessment)	<p>Audit Opinion - Good Standard</p> <p>Conclusions</p> <p>The Councils have clear procedures for reporting and responding to safeguarding incidents. However:</p> <ol style="list-style-type: none"> There is a plan to ensure that all staff and members are aware of the requirements in relation to the Councils' commitment to ensuring that children and vulnerable adults are supported and protected. This process has started but does need to be developed further for new starters, existing staff and members. Since the Councils' transformation programme, it is not clear if all current roles have been assessed in relation to safeguarding and the need for DBS checks. Case files relating to incidents are retained, with suitable restricted access. There is a need to ensure that these records are regularly reviewed and retained or destroyed in line with best practice and guidance. The Council has no central register of vulnerable people at risk or who pose a risk to officers and members. Plans are in place to have a secure record as part of the W2 system. 	<ol style="list-style-type: none"> Some general and targeted training has been provided for staff and specifically the Contact Centre. There are currently plans to include depot staff later in the year. <p>The new module for new starters and existing staff has been drafted and will be released shortly.</p> <p>Key Designated Officers (KDO) will be reviewed to ensure their training is up to date.</p> <ol style="list-style-type: none"> HR will be contacted to confirm appropriate staff have completed DBS checks. There will be a review of the DBS checks completed for KDO to ensure that they are up to date. <p>Plans are still underway to check all new Councillors and Member Services will be consulted as to the most appropriate course of action.</p> <ol style="list-style-type: none"> Relevant officers will discuss and determine suitable retention periods for records. Work has started on placing markers on accounts,

Subject	Audit Findings	Management Response
		without including text at this stage, to highlight to officers potential issues and that they should potentially contact their manager. A full roll out will be reviewed when the Council decides on development of current or future systems.
Business Continuity Follow-Up	<p>Emergency Planning Original Audit Opinion – Improvements Required</p> <p>Updated Audit Opinion – Good Standard</p> <p>Conclusions</p> <p>The Council is classed as a “Category 1 responder”, an organisation at the core of the response to most emergencies (e.g. emergency services, local authorities, NHS bodies). Category 1 responders are subject to the full set of civil protection duties. Whilst the Council is now well prepared for its role in the event of an emergency, there are a few issues which still need to be addressed, some of which are out of the control of the Emergency Planning Officer), to further enhance its preparedness:</p> <p>Key Findings The issues we wish to highlight include:</p> <ol style="list-style-type: none"> 1. “Category 1 responders” are required to have business continuity management arrangements in place (links to issues raised below under Business Continuity); 2. There remains a need to provide key officers with mobile phones which have been registered with the Mobile Telecommunication Privilege Access Scheme (MTPAS); 3. Ensuring that the Council is involved in simulated exercises at least annually, to involve a range of staff who would have key responsibilities in the event of an emergency; and 4. Publicise emergency planning advice to assist both residents and businesses. 	<ol style="list-style-type: none"> 1. Work on Business Continuity Plans has commenced (see responses below under “Business Continuity”) 2. A report, including a mobile phone policy, was taken to SLT regarding mobile phone provision across the organisation, which was approved. <p>Smart phones have been provided to Environmental Health ‘on call’ officers and registered with MTPAS. Currently, the Customer First Specialist Manager has a MTPAS registered phone and more recently the Head of Paid Service and the Group Manager Support Services and Customer First have had phones registered with MTPAS. Investigations indicate that personal mobile phones cannot be registered with MTPAS.</p> <ol style="list-style-type: none"> 3. A simulated exercise was carried out in Spring 2017, which was attended by SHDC officers. Officers also attend other Local Authorities training as part of a sharing agreement. 4. A page has been set up on the Council’s website, providing information regarding Emergency Planning, including ‘Be prepared for winter’ advice. Regular tweets are also published regarding safety and preparedness.

Subject	Audit Findings	Management Response
	<p>Business Continuity Original Audit Opinion – Fundamental Weaknesses</p> <p>Updated Audit Opinion – Fundamental Weaknesses</p> <p>Conclusions</p> <p>Since our audit of 2015/16 there has been no progress in developing the Council's business continuity management arrangements, which we are advised is due to lack of staff resource. However, we understand that it is planned to commence addressing some of the issues in early 2018. There is a need to:</p> <ol style="list-style-type: none"> 1. Write a corporate Business Continuity Strategy; 2. Develop service-level Business Continuity Plans, to feed into an over-arching corporate Plan; 3. Ensure officers of the Business Continuity Command and Control Team are appropriately trained and experienced; 4. Consider internal communications in the event that ICT systems are not available; 5. Provide Business Continuity training to relevant officers; 6. Co-ordinate exercises to validate the Business Continuity Plan(s); and 7. Provide Business Continuity advice to local businesses. 	<ol style="list-style-type: none"> 1. It is not felt necessary to have a business continuity strategy in place, just a business continuity plan. 2. Work has commenced to produce service level Business Continuity Plans, with COP leads having been provided with BCP templates to be completed, to be followed by an exercise to review the resultant Plans. This will include consideration of the prioritisation of services and how long services can operate at a reduced level. It is envisaged that there will be an overarching Business Continuity Plan, which will assess potential issues common to all services, e.g. loss of ICT, staff or accommodation etc, and this will be supported by service level plans which will consider possible issues specific to each service. 3. The intended BCP exercise will assist in identifying any training needs for SLT and ELT. 4. Informal communication arrangements are in place, with SLT and ELT holding one another's contact details, and those for their own key staff. However, a formal communications strategy will be drawn up. <p>Consideration could be given to the use of social media, use of personal phones for work, a link from the Councils' externally hosted website to allow staff to log on to the intranet without using the Councils' servers etc.</p> <ol style="list-style-type: none"> 5. Information about Business Continuity will be presented to all staff at a future Staff Briefing in order to raise awareness. 6. It is proposed that an annual exercise will be undertaken to validate the Business Continuity Plans and any weaknesses identified will be addressed.

Subject	Audit Findings	Management Response
		<p>7. Arrangements will be made to provide Business Continuity advice to local businesses via the Council's website or by directing them to the relevant pages on the County Council's site.</p> <p>In light of the recent incident where there was a loss of IT services, the inclusion of a bid for £15k in the 2018/19 budget has been put forward for the replacement of ageing network switches.</p>
Travel & Subsistence	<p>Audit Opinion - Improvements Required</p> <p>Conclusions</p> <p>Despite processes for the submission and payment of claims having been improved in the last year, and largely operating satisfactorily, there remain no formal controls in place to ensure the accuracy of claims submitted, nor to confirm that these are in line with policy.</p> <p>We raised a number of issues within the 2016/17 Payroll audit and we were able to confirm that many of these have now been addressed, but some do remain outstanding, the more significant of which include:</p> <ol style="list-style-type: none"> 1. There are issues concerning access to claimants' user accounts when staff processing travel and subsistence claims for payment require more detail. 2. There are currently no sample checks of claims submitted to ensure that they are reasonable and in line with policy; 3. VAT cannot be recovered against mileage claims as the self-serve module does not allow all the engine size and the fuel type of the claimant's vehicle to be entered; and 4. Claimants do not always submit receipts for fuel and other expenses. 	<ol style="list-style-type: none"> 1. ICT have liaised with software supplier, TeamSpirit, regarding access to user accounts and the outcome of this has yet to be confirmed. There is a need to set up an administration account to allow access to employee's claims without compromising security. 2. The sample checking of travel claims did commence but ceased due to staff vacancies. It is to be re-instated and carried out by the Support Services Case Manager following a re-organisation of responsibilities. 3. It is not known if the recoverable VAT does vary with engine size and fuel type, where the same rate is paid to all claimants regardless of the vehicle used. It will be discussed with the Accountant responsible for VAT, to establish the practicalities of re-claiming the VAT element and whether it is of benefit for the value involved. 4. All claims are now being checked to ensure that receipts have been submitted and where missing these are requested. Withholding payment where receipts have not been submitted has previously been implemented but was poorly received. The guidance was clarified, a message put in Friday Flash and an all staff email. However, this will be repeated to remind staff of the need to submit receipts.

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
System of Internal Control (SIC), and Annual Governance Statement (AGS)	<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>
Exemptions to Financial Procedure Rules	<p>Seven applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted with the exception of one where it was deemed that an exemption was not required.</p>

West Devon Audit Committee – 30th January 2018**Strategic Debt Review update to 31st December 2017****Recovery Strategy**

At the time of our 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 Council 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 12% portion of Council Tax due to West Devon, 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 was therefore decided to create a centralised debt recovery team, which has been responsible for managing all types of debt across the two authorities since the 1st 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 sit within Support Services.

The Support Services Case Management Manager (SP) presented a Debt Recovery Action Plan to SLT which included the above action as well as a number of others, examples of which are listed below together with an updated position :

- Recruitment of additional staff resource; (Update: This is complete. The last new member of staff joined on 2nd January and is currently being trained).
- Withdrawal of services where appropriate, such as trade waste collections, early eviction from rented business properties; (Update: This has commenced and has resulted in improved collection rates).
- Consideration of interest charges on unpaid commercial debts; (Update: Further discussion required with members).
- Use of Online Money Claims for legal action; (Update: This is ongoing – due to commence wef 1st April 2018).
- Reviewing all debt recovery procedures with a view to standardising these; (Update: This is an ongoing project)
- Taking a more pro-active approach to debt recovery. (Update: This is ongoing. Regular telephone chasing is now taking place, as is adhoc correspondence providing a last chance to pay prior to Court Action without further contact).

Sundry Debts

As shown in Table 1, the cumulative uncollected sundry debt for each authority has gradually increased year on year. That said, the total level of outstanding debt for 2017/18 has reduced since our previous report in September 2017. For West Devon it is now £245.9k, compared to £448.1k at 31st August 2017, a drop of £202k

The figures shown exclude any invoices less than thirty days old (as recovery does not commence until this point) at 31st December 2017, but do include credits owed by the Councils to debtors. As at 31st December 2017, West Devon credits totalled -£2.1k (-£50.6k at 31st August 2017).

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 individual overdue debts owed to the Council are all of relatively low value, with none exceeding £14k, one of which is the sum of £13.5k owed by SHDC for a staff recharge.

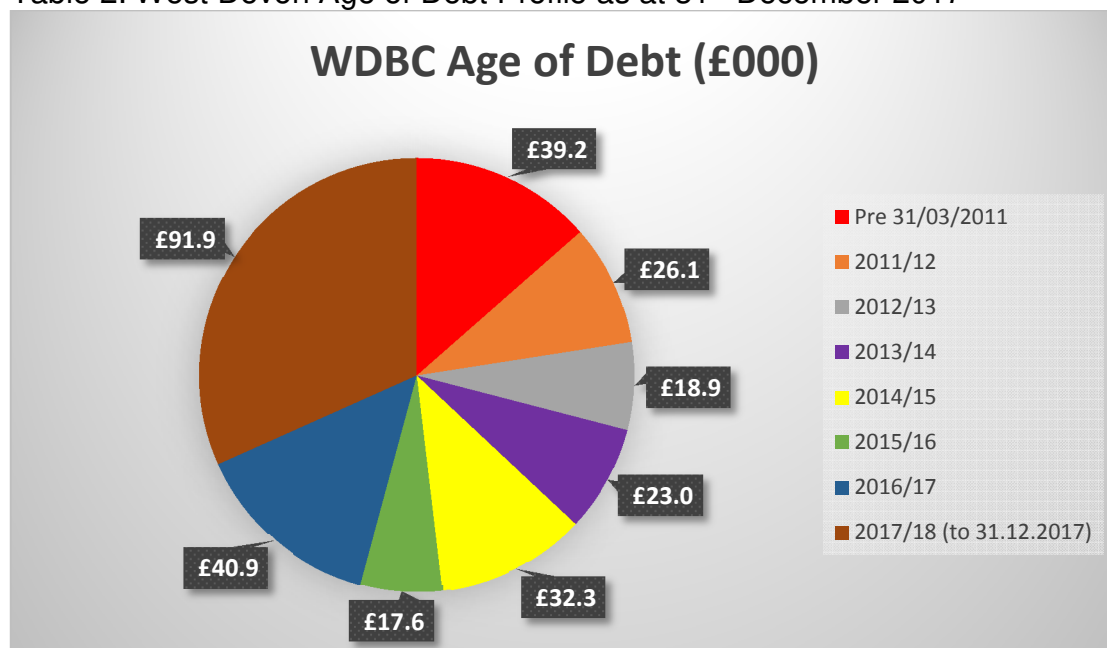
Table 1: Uncollected Sundry Debt Values for West Devon as at 31 Dec 2017



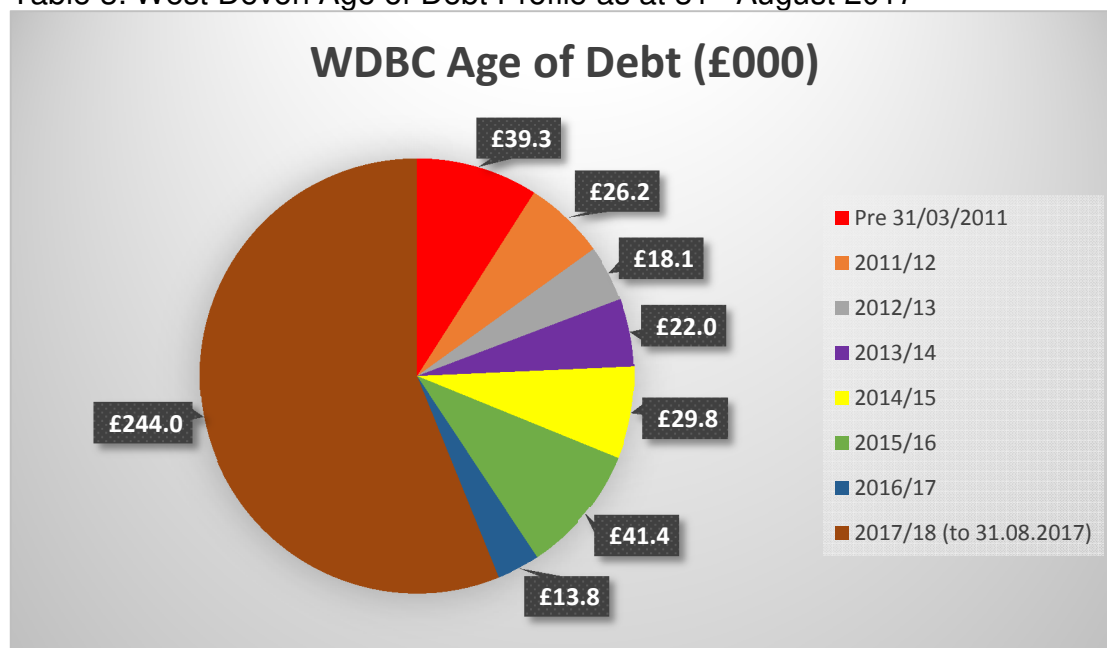
Source: Sundry Debtor System Reports

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 that is thirty days or more overdue at 31st December 2017. The figures are broken down by the year in which they were raised. This can then be compared to Table 3, which was presented to Audit Committee last September. It highlights a reduction in the debt levels that cover more recent years.

Table 2: West Devon Age of Debt Profile as at 31st December 2017

Source: Sundry Debtor System Reports

Table 3: West Devon Age of Debt Profile as at 31st August 2017

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 effectively created nil 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 there are now seven Case Managers who are trained in debt recovery.

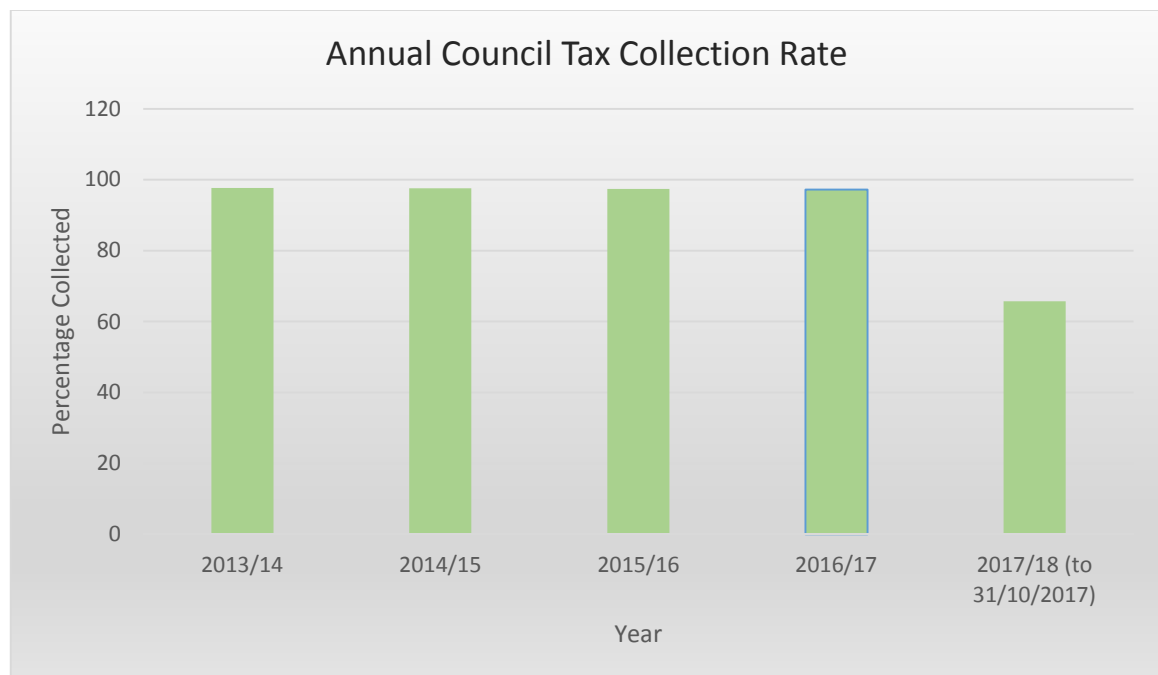
Council Tax

The Council Tax collection rate for each authority is shown in Table 4. 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 West Devon collection rate reduced by 0.12% 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 most recent data available for 2017/18 at the time of writing is to 31st October 2017. At this point 65.71% of West Devon Council Tax has been collected against a target of 66.0%. The target collection rates are based on the actual collection rates for the equivalent month in the previous year.

Table 4: West Devon Annual Council Tax Collection Rate at 31st Oct 2017



Source: Covalent performance indicator data

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

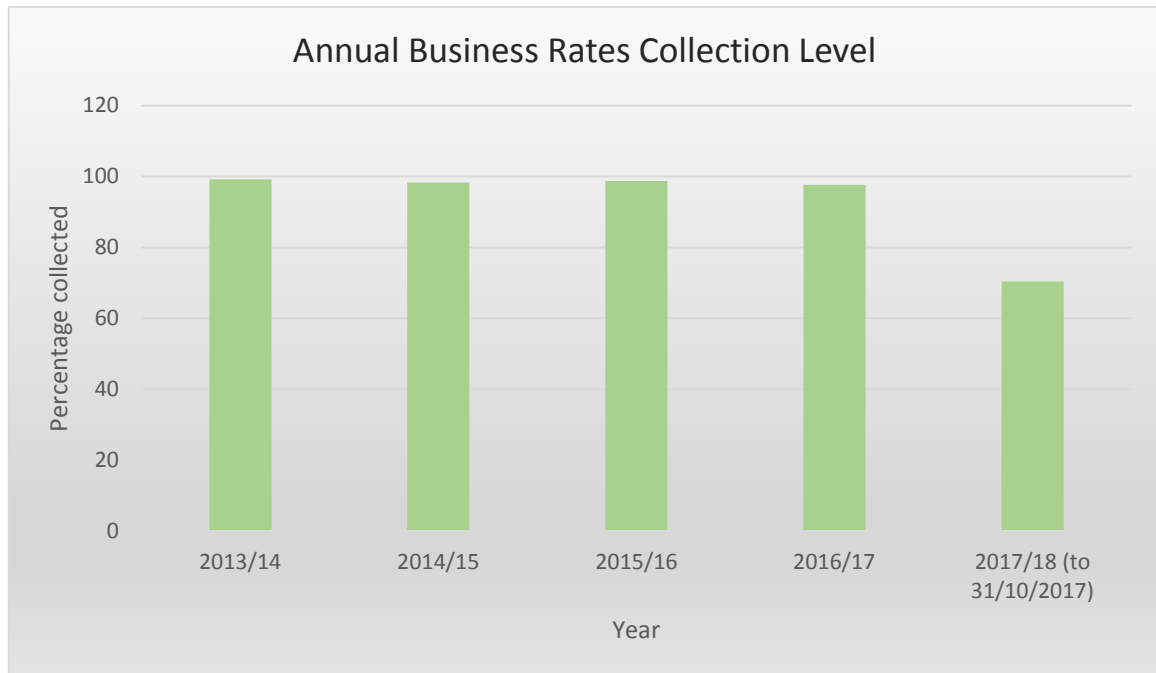
Business Rates

The Business Rates collection level for the Authority is shown in Table 5. 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 1.07% for West Devon. 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.

The most recent data available for 2017/18 at the time of writing is to 31st October 2017. At this point, 70.38% of West Devon Business Rates had been collected against a target of 70.54%. As like 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 5: West Devon Annual Business Rates Collection Levels at 31st Oct 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 6 shows levels of HBOP debt since 2013/14 to 31st December 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 6: West Devon Housing Benefit Overpayments at 31st December 2017



Source: Accounts Closedown working papers and Benefits system reports

West Devon HBOP debt appeared to have increased by 31.43% between 2015/16 and 2016/17. However, it is known that the 2015/16 figure was incorrect due to a technical error on the relevant Benefits system report. Also another reporting error was discovered which meant that recovered overpayments were not being included in the data. We are advised that this has now been corrected.

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 for the Authority during 2017/18. However, whilst there is an overall decrease, the level of HBOP debts outstanding as at 31st December 2017 has increased since our previous report in September 2017, now standing at £566k compared to £464k previously for West Devon.

It is understood that extra resource from within the existing team have been allocated to active collection of debt since beginning of December and the benefits of this are expected to be seen over the next quarter.

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Report to: **Audit Committee**
Date: **30 January 2018**
Title: **Treasury Management Mid-Year Review**
Portfolio Area: **Support Services – Cllr C Edmonds**
Wards Affected: **ALL**
Relevant Scrutiny Committee:

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

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<p>Recommendations: That the contents of the report are endorsed.</p>

1. Executive summary

To date, the Council has outperformed the industry benchmark by 0.27%. The Council has achieved a rate of return of 0.38%, against the 7 day LIBID bid rate (LIBID) of 0.11%. Following the rise in the Bank Base Rate on 2 November 2017, the Council is predicting that the investment income target of £70,321 will be achieved in 2017/18.

2. Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

The Council currently has a £2.1 million loan with the Public Works Loan Board. In December 2017, the Council approved an amendment to the Property Acquisition Strategy, which enables the Council to borrow up to £37.45 million (for a £35 million portfolio plus acquisition costs of 7%).

Further borrowing of £2.55 million to fund a Residential Property Purchase (Minute HC53) was also approved. This borrowing will not take place until 2019/20 at the earliest.

At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.

Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council's Finance Procedure Rules require that a report be taken to the Audit Committee three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Audit Committee 21/03/2017 – AC32)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

Economic Background

Monetary Policy Committee (MPC) meeting 2 November 2017

Earlier this month we saw two major developments: -

1. The MPC duly voted 7-2 to remove the post EU referendum emergency monetary stimulus implemented in August 2016 by reversing the cut in Bank Rate at that time from 0.5% to 0.25%, (with no change in QE this time). In view of the robust rate of growth in the second half of 2016 which confounded the Bank's August 2016 forecasts for a sharp slowdown, many commentators subsequently held the view that that emergency action was unnecessary.
2. The MPC also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

The quarterly Inflation Report itself, was notably downbeat about economic growth based on a view that the trend rate of growth for the economy has now fallen from 2.2% to only 1.5%, (whereas in the decade before the financial crash it grew at 2.9% p.a.). One of the main focuses for this was a view that productivity growth would remain very weak at about only 1% p.a.

This, in turn, is likely to feed through into weak domestically generated, (i.e. excluding the one off post referendum imported inflation through the fall in the value of sterling), price pressures underpinning CPI inflation. Overall, the Inflation Report was little changed from the August report and again forecast that inflation would be barely above the 2% target at the three year time horizon; it is also expected to peak very soon at 3.2%, (September was 3.0%), before falling thereafter as the devaluation effect gradually falls out of the 12 month statistics. As for forecasts for GDP growth, these also barely changed with growth falling from 1.7% to 1.6% for 2017 and being unchanged for 2018 (1.6%) and 2019 (1.8%). The MPC was also quite concerned about the situation over Brexit as there has been little significant agreement so far in terms of moving towards giving UK firms some confidence of what sort of trade terms the UK is likely to have with the EU from 2019. It has to be said that overall, this is really a quite pessimistic outlook for the UK economy.

Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20

The predicted interest rate forecast from our treasury management advisors, Capita, is that interest rates will remain at 0.5% up to September 2018 and then in December 2018 the base rate is predicted to rise to 0.75%. By December 2019 the bank base rate is predicted to increase to 1%.

A Council is not able to borrow in advance of need and borrowing will be undertaken on review of the Council's whole Capital Financing Requirement and projected Balance Sheet for future years.

Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 11/04/17 – CM69 (and Audit Committee 21/03/2017 – AC32). It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Net Interest Position

	2016/17 Outturn £	Sept-17 £	Estimated Outturn £
Interest paid	95,550	47,775	95,550
Interest earned			
Investment interest	(55,113)	(8,410)	(45,000)
Net Interest	40,437	39,365	50,550
CCLA – LAPF Dividend			(21,000)
Net Interest	40,437	39,365	29,550

The Council made an investment in the CCLA's Property Fund on 30 April 2017. It should be noted that investments in property funds are a long term commitment which means that there can be fluctuations on the return from the investment.

Treasury Position at 30 September 2017

Money Market Funds

Amount	Investment	Interest rate*
£3,000,000	Ignis Sterling Liquidity	As below
£1,040,000	BlackRock ICS-Inst GBP	As below
£3,000,000	LGIM Sterling Liquidity Fund	As below

*Interest rate is variable

The Council currently has four Money Market Funds. The money market funds allow immediate access to the Council's funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

Fixed Term Deposits - Current

Amount	Investment	Interest rate	Date Invested	No of Days
£3,000,000	Lloyds Bank Plc	0.55%	15/05/2017	184

Fixed Term Deposits – Forward Deals

Amount	Investment	Interest rate	Date Invested	No of Days
£3,000,000	Lloyds Bank Plc	0.65%	15/11/2017	184

The Council's Investments mid way through the year are always higher than at the end of the year (at 31st March) due to the cashflow advantage that the Council benefits from part way through the year.

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority

The Council's current counterparty limit is £3 million (£4 million for Lloyds plc).

Property Funds

Amount	Investment	Dividend Yield
£500,000	CCLA – Property Fund	4.60%

Performance Assessment and Proposed Way Forward

The Council's budget for investment interest of £70,321 for 2017/18 is expected to be on target. This takes into account current performance and the base rate rise on 2 November 2017.

Industry performance is judged and monitored by reference to a standard benchmark; this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of September was 0.11% which is 0.27% lower than our average return of 0.38% as at 30 September 2017.

The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix A).

Compliance with Treasury Limits and Prudential Indicators

During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2017/18 are detailed and shown in Appendix B.

3. Outcomes/outputs

In the last 18 months the interest achieved has been above the industry benchmark due to better use of fixed term investments. The budget for investment income for 2017/18 has been set at £70,321. This is £25,000 higher than in 2016/17, due to predicted income from the investment in CCLA in 2017/18.

4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial	Y	To date, the Council has outperformed the industry benchmark by 0.27%. The Council has achieved a rate of return of 0.38%, against the 7 day LIBID bid rate (LIBID) of 0.11%. The Council is predicting that the investment income target of £70,321 will be met in 2017/18.
Risk	Y	<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Audit Committee.</p>

Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/A
Safeguarding	N	N/A
Community Safety, Crime and Disorder	N	N/A
Health, Safety and Wellbeing	N	N/A
Other implications	N	None

Supporting Information

Appendices:

Appendix A – Lending list as at 30 September 2017

Appendix B – Prudential and Treasury Indicators 2017/18

Background Papers:

Annual treasury strategy in advance of the year (Audit 21/03/17 – AC32)

APPENDIX A

West Devon Borough Council lending list as at 30 September 2017.

Barclays Bank Plc
HSBC Bank plc
Lloyds Banking Group Plc: <ul style="list-style-type: none">• Bank of Scotland plc• Lloyds Bank plc
Nationwide Building Society
Royal Bank of Scotland Group Plc: <ul style="list-style-type: none">• The Royal Bank of Scotland plc• National Westminster Bank plc
Government UK Debt Management Facility
Local Authorities (as defined under Section 23 of the Local Government Act 2003)
AAA rated Money Market Funds
AAA Enhanced Cash Funds
Property Investment Funds - CCLA

APPENDIX B

PRUDENTIAL INDICATORS

THE CAPITAL PRUDENTIAL INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
Total	300	651	41,970	901	3,151

The capital expenditure estimates have been increased by £37.45 million in 2017/18 in line with the commercial property acquisition strategy. Similarly estimates for 2019/20 have been increased by £2.55 million for the Residential Property Purchase (HC 53).

Note: The Council has not yet purchased any commercial property at the time of writing this report but the table reflects the approved strategy.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

The table below summarises the above capital expenditure plans and how these plans are being financed. Any shortfall of resources results in a funding need (borrowing).

Capital Expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
Total	300	651	41,970	901	3,151
Financed by:					
Capital receipts	32	0	0	0	0
Capital grants	244	239	402	402	402
Reserves	24	0	80	0	0
New Homes Bonus	0	412	88	199	199
Net financing need for the year	Nil	Nil	41,400	300	2,550

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow if the figure is greater than zero.

In 2016/17 the Council has agreed to undertake prudential borrowing for the new leisure contract. The Council has also agreed borrowing for the waste fleet vehicles.

The Capital Financing Requirement has been increased by £37.45 million in 2017/18 to reflect the recommendations within the commercial property acquisition strategy. Note: The Council has not yet purchased any commercial property at the time of writing this report, but the table reflects the approved strategy.

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
Capital Financing Requirement (CFR)					
Total CFR	1,757	1,715	43,073	42,610	44,375
Movement in CFR	-42	-42	41,358	-463	1,765
Movement in CFR represented by:					
Net Financing need for the year	0	0	41,400	300	2,550
Less MRP and other financing movements	-42	-42	-42	-763	-785
Net borrowing requirement	-42	-42	41,358	-463	1,765

Minimum Revenue Provision (MRP)

The MRP Policy Statement aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

The MRP policy adopted is as below:-

Borrowing	MRP Methodology
Commercial Property acquisition (Borrowing of up to £37.45 million) Residential Property Purchase	<i>Annuity Method (over the 50 years)</i> Under this calculation, the revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money. Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates. Under this example, the MRP charge in Year 1 on a £37.45 million borrowing would be £367,000, this rises to £377,000 in Year 2 etc.
Waste Fleet, Leisure Investment and Kilworthy Park	<i>Asset Life Method</i> MRP is charged using the Asset Life method – based on the estimated life of the asset. This option provides for a reduction in the borrowing need over approximately the asset's life.

Debt Rescheduling

The Council has one PWLB loan of £2.1 million which matures in 2053; this is at a rate of 4.55%.

The Council has not undertaken any debt rescheduling during the first six months of 2017/18 and there are no current opportunities for debt rescheduling.

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget Requirement.

The financing costs have been increased to reflect the proposals within the commercial property acquisition strategy. These proposal have increased this indicator in 2018/19 and 2019/20.

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Estimate	Estimate	Estimate
Ratio of net investment income to net revenue stream. (Surplus)	1.1%	1.1%	3.4%	26.7%	27.9%

Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

The estimates of the impact on council tax (this is a notional indicator) have been revised for the proposals set out in the commercial property acquisition strategy.

The commercial property acquisition strategy has the potential to contribute to the forecast budget gap by £520,000 as set out in the report. If the borrowing for the Waste Fleet and for Leisure are excluded, the expected benefit from the commercial property acquisition strategy would equate to a benefit of (£3.70) in 2017/18, rising to (£25.80) in 2018/19 and (£23.17) in 2019/20.

These figures are the incremental impact of capital investments decisions on a Band D council tax (surplus). These figures are included within the 'future incremental impact of capital investment decisions on the Band D Council Tax' shown below.

The cost shown in 2017/18 of £1.96 and in 2019/20 of £0.36 are due to the fact that the financing costs and MRP costs of the waste fleet, leisure investment and residential property purchase are also included.

Incremental impact of capital investment decisions on the band D council tax (Notional cost as explained above)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Estimate	Estimate	Estimate
	£	£	£	£	£
Future incremental impact of capital investment decisions on the band D Council tax (Notional cost)	0.01	0.06	1.96	(2.61)	0.36

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2015/16	2016/17	2017/18	2018/19
	£	£	£	£
Borrowing	3,000,000	3,000,000	45,000,000	47,500,000
Other long term liabilities	-	-	-	-
Total	3,000,000	3,000,000	45,000,000	47,500,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The figures in 2017/18 have increased to reflect the proposed borrowing for the new leisure contract and potential additional borrowing for the waste fleet. The Operational Boundary has been increased by £37.45 million in 2017/18 to reflect the recommendations within the commercial property acquisition strategy. Similarly the limits in 2019/20 have been increased by £2.55 million for the residential property purchase (HC 53). Note: The Council has not yet purchased any commercial property at the time of writing this report, but the table reflects the approved strategy.

Authorised limit	2015/16	2016/17	2017/18	2018/19
	£	£	£	£
Borrowing	6,000,000	6,000,000	48,000,000	50,500,000
Other long term liabilities	-	-	-	-
Total	6,000,000	6,000,000	48,000,000	50,500,000

West Devon Borough Council's current level of external borrowing is £2.1 million.

The figures in 2017/18 have increased to reflect the proposed borrowing for the new leisure contract and potential additional borrowing for the waste fleet.

The Authorised Limit has been increased by £37.45 million in 2017/18 to reflect the recommendations within the commercial property acquisition strategy. Similarly the limits in 2019/20 have been increased by £2.55 million for the residential property purchase (HC 53).

Note: The Council has not yet purchased any commercial property at the time of writing this report, but the table reflects the approved strategy.

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