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SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 27TH SEPTEMBER, 2012

Agenda, Reports and Minutes for the meeting

Agenda No Item

1. **Agenda Letter** (Pages 1 - 2)

2. **Reports**

Reports to Audit:

- a) Item 5 - Strategic Risk Assessment - Six Monthly Update (Pages 3 - 28)
- b) Item 6 - Audit Commission - Annual Governance Statement (Pages 29 - 56)
- c) Item 7 - Audited Annual Statement of Accounts 2011/12 - letter of representation
(Pages 57 - 174)
- d) Item 8 - Update of the Annual Governance Statement 2011/12 (Pages 175 - 194)
- e) Item 9 - Fighting Fraud Locally and the National Fraud Initiative - checklists (Pages
195 - 208)
- f) Item 10 - Progress against Internal Audit Plan 2012/2013 (Pages 209 - 228)

3. **Minutes** (Pages 229 - 234)

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Agenda Item 1

Please reply to: Jo Doney
Service: Corporate Services
Direct Telephone: 01803 861466
E-Mail: Jo.Doney@southhams.gov.uk

To: Chairman & Members of the Audit Committee
(Cllrs Bramble, Bruce-Spencer, Gorman, Jones and Pennington);

Our Ref: CS/JD

cc: Cllr Hicks (Lead Executive Member)
Remainder of the Council;
Usual press and officer circulation.

19 September 2012

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes on **Thursday 27 September 2012 at 2.00 p.m.** when your attendance is requested.

Yours sincerely

Jo Doney
Member Support Officer

<p>FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT JO DONEY MEMBER SUPPORT OFFICER ON DIRECT LINE 01803 861466</p>

A G E N D A

1. **Minutes** – to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 17 July 2012 (pages 1 to 3);
2. **Urgent Business** - brought forward at the discretion of the Chairman;
3. **Division of Agenda** - to consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;
4. **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;

5. **Strategic Risk Assessment – Six Monthly Update** – to consider a report that informs Members of the current situation with regard to corporate strategic risk assessment and a summary of the management/mitigation of the identified risks (with **EXEMPT** appendices) (pages 4 to 28);
6. **Audit Commission – Annual Governance Statement** – to follow
7. **Audited Annual Statement of Accounts 2011/12 – letter of representation** – to consider a report which presents a summary of net revenue and capital expenditure and seeks approval of the audited Statement of Accounts for 2011/12 (appendices to follow) (pages 29 to 33);
8. **Update of the Annual Governance Statement 2011/12** – to consider a report that provides public confirmation that the Council has a sound framework of governance and system of internal control; (pages 34 to 53);
9. **Fighting Fraud Locally and the National Fraud Initiative – checklists** – to consider a report which informs Members of the position of the Council against the Checklists included in the National Fraud Authority’s strategy ‘Fighting Fraud Locally’ and the Audit Commission’s publication ‘The National Fraud Initiative’ (pages 54 to 67);
10. **Progress against Internal Audit Plan 2012/2013** – to consider a report which informs Members of the principle activities and findings of the Council’s Internal Audit Team for 2012/13 to 31 August 2012 (with **EXEMPT** appendices) (pages 68 to 86).

N.B. Legal and financial officers will not, as a general rule, be present throughout all meetings, but will be on standby if required. Members are requested to advise Member Support Services in advance of the meeting if they require any information of a legal or financial nature.

* * * * *

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

THIS AGENDA HAS BEEN PRINTED ON ENVIRONMENTALLY FRIENDLY PAPER

If you or someone you know would like this publication in a different format, such as large print or a language other than English, please call Darryl White on 01803 861247 or by email at: darryl.white@southhams.gov.uk

Members of the public may wish to note that the Council's meeting rooms are accessible by wheelchairs and have a loop induction hearing system

Document is Restricted

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Annual governance report

South Hams District Council

Audit 2011/12

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Agenda Item 2b

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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 17 September 2012 I expect to issue an unqualified audit opinion.

My audit identified a material inconsistency in the disclosure of the comprehensive income and expenditure statement and material disclosure errors in the financial instruments note. I also identified four non-trivial errors in the primary statements and non-trivial disclosure errors in Note 9 to the statements.

- The Authority has amended the material inconsistency and disclosure errors, one of the non-trivial errors and Note 9. Details are set out in Appendix 3 on page 18.
- The Authority does not plan to amend the 2011/12 financial statements for the remaining errors, the details of which are set out in Appendix 2 on page 16.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission in relation to:

- Securing financial resilience; and
- Securing economy, efficiency and effectiveness.

I have shown my conclusions for both of these on pages 9 -10.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

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Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

I identified three non-trivial errors that management has not corrected in the financial statements. Details of these uncorrected errors can be found in Appendix 2. These errors relate to weaknesses in the Authority's year end accruals process.

Corrected errors

I identified the following errors which have been corrected in the final version of the financial statements:

- a material inconsistency in the disclosure of the comprehensive income and expenditure statement,
- material overstatements in disclosure Note 12 'Financial Instruments',
- one non-trivial error in the balance sheet; and
- non-trivial errors in the property, plant and equipment Note 9.

Further details of these errors can be found in Appendix 3.

I also identified a number of other minor/trivial issues within the accounts that are not detailed within this report.

Significant risks and my findings

I reported to you in my April 2012 Audit Plan the significant risk that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against this risk.

Table 1: **Risks and findings**

Risk	Finding
The Council has a shared management team with West Devon Borough Council and has plans for further integration of services in the future. The payroll costs of these staff are being apportioned between the two councils, increasing the risk of misstatement.	I reviewed the basis of apportionment to ensure that staff costs are being correctly allocated to the Council. My testing concluded that payroll costs had been apportioned on a reasonable basis.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements:

Table 2: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
<p>Property, Plant & Equipment (PPE)</p> <p>Heads of Service review the asset register at the year end to verify that it is complete, the assets included within it physically exist and that they were owned by the Council as at 31/03/12.</p> <p>At the year end, Heads of Service were not supplied with the correct 31/03/12 asset register and failed to identify that purchased assets were missing from the asset register and that some 2011/12 disposals were still included.</p>	<p>This control failure could lead to a material misstatement in the accounts.</p>	<p>The Authority should review its arrangements for verification of the accuracy of the asset register at the year end (R1)</p>
<p>Accruals process</p> <p>As part of our post-statements substantive testing we identified weaknesses in the Authority's accruals process.</p> <p>Our testing found that items of income and expenditure had not been accounted for in the correct year in line with the Authority's accruals policy (Note 40 ii of the financial statements).</p>	<p>There is potential that the financial statements may be materially misstated due to the Authority not complying with a fundamental accounting concept, adopted in its own accounting policies.</p> <p>Additional testing was carried out by external and internal auditors to ensure that this had not occurred.</p>	<p>Management should ensure that the year end accruals process is improved and the Authority complies with its accounting policy (R2)</p>

Recommendations

R1 The Authority should ensure that the most appropriate individual (not necessarily the Heads of Service) verifies assets within the asset register and that the correct version of the register at 31 March is provided each year. The Authority should ensure that the verifier is provided with appropriate information to ensure the verification exercise is effective e.g. a list of in year additions and disposals.

R2 Management should ensure that the year end accruals process is improved and the Authority complies with its accounting policy.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you that I had not identified any significant risks that were relevant to my conclusion. I reported that I had identified one inherent risk and I have set out below the findings of my work addressing the risk I identified.

Table 3: **Inherent risk**

Risk	Finding	Impact on Value for Money (VFM) conclusion
<p>Financial management:</p> <p>Councils are facing significant cuts in funding from central government, as well as reductions in other sources of income. The Council faces significant challenges in delivering its financial plans over the next few years.</p>	<p>Having carried out the following work, I did not identify any concerns affecting my conclusion:</p> <ul style="list-style-type: none"> ■ I reviewed the 2011/12 revenue outcome against budget. ■ I developed an understanding of the 2012/13 budget setting process, including the assumptions made. ■ I reviewed the Authority's current and future savings plans. 	<p>I have not identified any concerns affecting my VFM conclusion in relation to this risk.</p>

Findings

I have set out below the findings of my work.

Table 4: Value for money conclusion criteria and my findings

Criteria	Findings	Improvement areas
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The criteria are met.</p> <ul style="list-style-type: none"> – The quality of financial governance and leadership within the organisation is critical and overall financial culture is good. – The Authority has set its budget in the context of a realistic medium-term financial plan (MTFP) covering a four year horizon. – The Authority has demonstrated its ability to deliver services within budget whilst generating a £260k surplus in 2011/12. – The Authority is taking appropriate steps to challenge its future budgets and generate savings. 	<p>None identified.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The criteria are met.</p> <ul style="list-style-type: none"> – The Authority has taken a strategic approach to challenging expenditure, considering how spending matches the priorities of the organisation and the needs of the people it serves. – The Authority is effectively managing the impact of reducing government funding on local public services and making good use of the resources available to them. 	<p>The MTFS identifies the budget gaps over the 2013/14 to 2016/17 period. As reported to the Executive on 6 September 2012, the Authority needs to develop its budget strategy to address the budget gaps, which must be supported by detailed savings plans.</p>

Conclusion

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Fees

I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 5: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	94,953	94,953	94,953
Claims and returns [delete if not applicable]		21,000	21,000
Total		115,953	115,953

The Audit Commission has paid a rebate of £7,596 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £108,357.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SOUTH HAMS DISTRICT COUNCIL

Opinion on the Authority’s financial statements

I have audited the financial statements of South Hams District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of South Hams District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and Audit and auditor

As explained more fully in the Statement of the Head of Finance and Audit’s Responsibilities, the Head of Finance and Audit is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Audit; and the overall presentation of the financial statements. In addition, I read

all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of South Hams District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, South Hams District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of South Hams District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alun Williams
District Auditor

Audit Commission
3-4 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter
EX2 8PW

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September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

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Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Creditors (income in advance)	Income received in advance overstated (rent not split between 2010/11 and 2011/12) Creditors testing - The £15k error applied to the entire employment estates rental income results in an extrapolated error of £20k (non-trivial). Cut-off testing - The £15k error applied to the cut-off receipts population results in an extrapolated error of £35k (non-trivial).	20/35			20/35
Comprehensive Income & Expenditure Statement, Housing, Housing benefit expenditure (& associated income)	2011/12 Housing Benefits expenditure has been understated by £198k due to the methodology used by the Authority to determine the 11/12 income/expenditure figures. The associated income understatement has been estimated as £197k. The net effect of this error is £1k.	198	197		1

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Comprehensive Income & Expenditure Statement, Cost of services, (Non Housing Benefit) Expenditure	<p>Initial testing (in line with our sample methodology) identified an error of £6k (overstated 11/12 expenditure) that when applied to the entire population resulted in a material error.</p> <p>A further sample was tested but this identified an additional error of £15k (overstated 11/12 expenditure) which increased the extrapolated error.</p> <p>I agreed that a further sample of 20 items would be tested by Internal Audit (IA). This identified 2 further errors totalling £3k (understated 11/12 expenditure).</p> <p>My review of IA's work identified 1 further error of £3k (understated 11/12 expenditure).</p> <p>The results of all of the above led to an extrapolated overstated 11/12 expenditure error of £91k (non-trivial).</p>		91	91	

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Comprehensive Income and Expenditure Statement (CIES) – Inconsistent disclosure	Notes 6 and 7 supporting the CIES could not easily be reconciled to the CIES, and were compiled on a different basis to the previous year. This does not change the bottom line of the CIES.	4,569	4,569		
Provisions	As at 31/03/11 the Authority correctly recognised predicted future strain payments as a result of potential redundancies as a provision due to uncertainty about the amount/timing of the transaction. As at 31/03/12 there was certainty about the amount and timing of these strain payments totalling £141k and therefore they should have been disclosed as creditors.			141	141
Note 12 Financial Instruments	The financial instruments note included expenditure made in advance and income received in advance, including grants and s.106 contributions. Although this was consistent with 2010/11, technical guidance received during the audit indicates these items should be excluded from this note. This resulted in the following material				Affects note only

Statement of comprehensive income and expenditure

Balance sheet

misstatements:

Debtors – Financial assets carried at contract amounts was overstated by £2,377k in 2011/12 (2010/11 comparative overstated by £2,026k)

Creditors – Financial liabilities carried at contract amounts was overstated by £1,208k in 2011/12 (2010/11 comparative overstated by £1,102k)

Property, Plant & Equipment (PPE) – Note 9

I reported in my 2010/11 Annual Governance Report that figures in the PPE note had been incorrectly disclosed net of depreciation charged to the CIES. I identified the same issue and other non-trivial errors within this note in 2011/12 which the Authority has amended. These errors had no effect on the PPE net book value disclosed in the Balance Sheet.

Affects note only

Appendix 4 – Draft letter of management representation

South Hams District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of South Hams District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Authority and the reasons for not correcting these items are as follows.

- reason 1 etc;
- reason 2]

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Contingent Liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of South Hams District Council confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2012

Signed

Name

Position

Date

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Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

The Authority should ensure that the most appropriate individual (not necessarily the Heads of Service) verifies assets within the asset register and that the correct version of the 31/03 register is provided each year. The Authority should ensure that the verifier is provided with appropriate information to ensure the verification exercise is effective e.g. a list of in year additions and disposals.

Responsibility	Principal Accountant
-----------------------	----------------------

Priority	High
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Date	28 February 2013
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Comments	The documentation used for the exercise will be reviewed and changes made where necessary.
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Recommendation 2

Management should ensure that the year end accruals process is improved and the Authority complies with its accounting policy.

Responsibility	Chief Accountant
-----------------------	------------------

Priority	High
-----------------	------

Date	31 January 2013
-------------	-----------------

Comments	The system will be reviewed as part of the planning process for the preparation of the 2012/13 final accounts.
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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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AGENDA
ITEM

7

SOUTH HAMS DISTRICT COUNCIL

AGENDA
ITEM

7

NAME OF COMMITTEE	Audit Committee
DATE	27 September 2012
REPORT TITLE	ANNUAL STATEMENT OF ACCOUNTS 2011/12
Report of	Head of Finance and Audit
WARDS AFFECTED	All

Summary of report:

This report presents a summary of net revenue and capital expenditure for Members consideration and seeks approval of the audited Statement of Accounts for 2011/12 (to follow). **Following approval of the accounts, the Chairman of the Audit Committee is required sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the Head of Finance are required to sign the Letter of Representation.**

Financial implications:

The Council's Statement of Accounts set out the financial position of the Authority as at 31 March 2012. The report advises Members that a surplus of £260,000 was generated in 2011/12.

RECOMMENDATIONS:

It is recommended that Members approve:

1. the wording of the Letter of Representation (Appendix A)
2. the audited Statements of Accounts (Appendix B)

Officer contact:

Michael Tithecott, Chief Accountant Tel: 01803 861374 Email:
mike.tithecott@southhams.gov.uk

1. BACKGROUND

- 1.1 The Accounts and Audit (England) Regulations 2011 set out the requirements for the production and publication of the local authority's annual Statement of Accounts (SOA). These regulations introduced revised procedures for the certification, approval and publication of accounting statements. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the external audit.
- 1.2 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.
- 1.3 The attached booklet (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Account, Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow. In addition, the explanatory foreword to the booklet summarises the major variations in income and expenditure from the original budget.
- 1.4 The accounts have been prepared in accordance with all relevant and appropriate accounting standards including International Accounting Standard (IAS)19 which deals with pension costs.

2. ISSUES FOR CONSIDERATION

2.1 IAS 19 – “Employee Benefits”

- 2.1.1 This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's SOA. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.

2.2 Revenue Expenditure

- 2.2.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, fees and charges, government grants and interest earned on investment activity.
- 2.2.2 The surplus on the General Fund in 2011/2012 is £260,000 which represents less than 0.5% of the Council's gross turnover of £59m. The main differences from budget are shown in paragraph 4 of the Explanatory Forward in the SOA.

2.3 Capital Expenditure

- 2.3.1 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £3.4m in 2011/12 and is analysed in the Explanatory Foreword to the SOA.

3. AUDIT OF ACCOUNTS

- 3.1 The draft Statement of Accounts was considered by the Audit Committee on 17 July 2012. The Draft Statement of Accounts is required to be audited by the Council's external auditors, who give their opinion on the Draft Accounts. The annual audit was undertaken in August 2012 and September 2012 by the Council's external auditors, the Audit Commission. Post audit changes have been incorporated within the SOA in line with the recommendations contained within the auditor's Annual Governance Report.
- 3.2 The Council Constitution delegates approval of the Accounts to the Audit Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit Committee and the Head of Finance are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

4. LEGAL IMPLICATIONS

- 4.1 The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 (SI 2011 No 817).

5. FINANCIAL IMPLICATIONS

- 5.1 There are no material financial implications arising from the audit of the accounts.

6. RISK MANAGEMENT

- 6.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Effective financial management underpins the achievement of all priorities
Statutory powers:	Section 151 Local Government Act 1972 Section 21 (12) Local Government Act 2003 Accounts and Audit (England) Regulations 2011 SI 2011 No 817
Considerations of equality and human rights:	None directly arising from this report
Biodiversity considerations:	None directly arising from this report
Sustainability considerations:	None directly arising from this report
Crime and disorder implications:	None directly arising from this report
Background papers:	Corporate Finance working papers
Appendices attached:	Appendix A – Letter of Representation Appendix B – Statement of Accounts

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Public Accountability	A formal review of the Statement of Accounts forms an essential component of the Council's systems for public accountability and is a statutory requirement.	5	1	5	↔	The accounts have been drawn up in strict accordance with the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2011/12</i> which is recognised by statute as representing proper accounting practice	Head of Finance & Audit
2	Resource Planning	Consideration of the balance sheet and revenue outturn provides a platform for future resource planning.	5	1	5	↔	The Executive take in account any significant issues when developing the Council's Medium Term Financial Strategy.	Head of Finance & Audit/ Executive

Direction of travel symbols ↓ ↑ ↔

Management Representation Letter

Alun Williams
District Auditor
Audit Commission
3-4 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter EX2 8PW

South Hams District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of South Hams District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements set out in the Annual Governance Report are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Authority and the reasons for not correcting these items are as follows.

- Creditors (income in advance) - *The £15,000 income received in advance, where the rent was not split between 2011/12 and 2012/13, has not been corrected due to the amount not being material.*

- Housing Benefit expenditure (& associated income) - The effect of the Council's methodology is an understatement of £1,000 in the Comprehensive Income & Expenditure Account (CIES). *This has not been corrected due to the net amount not being material.*
- Non Housing Benefit Expenditure –*the transactions identified from the sample testing have not been corrected due to the net effect on the Council's financial statements not being material.*

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to

the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Contingent Liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm that I have disclosed the identity of South Hams District Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of South Hams District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 27 September 2012.

Signed:

Name: Councillor T Pennington

Mrs Lisa Buckle

Position: Chairman of the Audit Committee

Chief Finance Officer

Date: 27 September 2012

27 September 2012

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APPENDIX B

South Hams District Council

Statement of Accounts

2011/2012



**South Hams
District Council**

Contents

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INTRODUCTION

1. Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute.
2. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published. This foreword intends to give a general guide to the significant matters reported in the statements and provides a summary of the overall financial position.

REVIEW OF THE YEAR

The revenue budget

3. The main components of the General Fund budget for 2011/12 and how these compare with actual income and expenditure are set out below:

	Estimate £000s	Actual £000s	Difference Cost/(Saving) £000s
Cost of services (after allowing for income and reserve contributions)	9,917	9,618	(299)
Parish precepts	1,537	1,537	0
Interest and Investment income	(280)	(242)	38
Amount to be met from government grants and taxation	11,174	10,913	(261)
<i>Financed from:</i>			
Formula Grant	(4,203)	(4,203)	0
Council tax	(6,662)	(6,662)	0
Surplus on collection fund	(80)	(80)	0
Council Tax Freeze Grant	(129)	(128)	1
New Homes Grant	(100)	(100)	0
SURPLUS	0	(260)	(260)

4. The surplus on the General Fund of £260,000 represents less than 0.5% of the Council's gross turnover of £59m. A summary of the main differences from budget is provided below:

ANALYSIS OF VARIATIONS	£000
Increases in expenditure/reductions in income	
Car Parks – reduction in income/ increased rates	194
Transport – additional expenditure on fuel and repairs & maintenance (R &M) largely due to price increases	156
Trade Waste – Reduction in income	57
Investment Income – interest rates lower than anticipated	38
Discretionary Rate Relief – payments have risen in line with inflation	32
Employment Estates – mainly loss of rate relief on empty properties	31
Grounds Maintenance – reduction in income following change in specification to Highways Contract	20
Dartmouth Ferry – mainly increased R&M	15
External Audit Fees – anticipated reduction not realised	12
Reductions in expenditure/additional income	
Senior Management Review – shared service salary savings arising from the new management structure (see next section for further details).	(214)
Inflation – central provision for pay awards not required	(135)
Other salary savings – mainly due to additional income from the Shared Services initiative	(129)
ICT Product Support – full budget provision not required as a number of contracts were terminated or renegotiated	(107)
Housing Benefit – additional subsidy and improved recovery of debt	(100)
Household Waste Collection & Recycling – mainly additional grant contribution towards running costs of Tor Quarry from Devon County Council.	(52)
Democratic Representation – various savings including printing, hospitality and travel.	(20)
Council Tax & Business Rate Collection – mainly additional administration grant	(20)
Subscriptions – Ordnance Survey Public Service Mapping Agreement subscription no longer payable.	(19)
Pannier Markets – additional income	(19)
TOTAL SURPLUS	(260)

Senior Management Review

5. In November 2010, the Chief Executive for South Hams District Council and West Devon Borough Council carried out a senior management review to rationalise the senior staffing structure and achieve efficiency savings.
6. In March 2011, a new management team, shared with West Devon Borough Council was appointed. Two Corporate Directors and seven Heads of Service are now working across both Councils and the new team replaces four Corporate Directors and fifteen Heads of Service.
7. A net provision of £587,000 was made in the 2010/11 accounts for the redundancy costs from the senior Management Review. An accrual of £328,000 for pension “strain” payments was also provided for. As a result of early retirement, strain payments are required to be made to the pension fund to compensate for pensions being drawn down before the normal retirement age of 60. A summary of the transactions is provided in Note 2 (Material Items)
8. The total estimated savings arising from the senior management review shared between both Councils is approximately £500,000 per annum. The annual share of the savings is in the region of £300,000 for South Hams District Council.

Middle Management Review

9. Following the Senior Management Review in the spring of 2011, a complete review of all of the middle management positions was undertaken by the Heads of Service. New operational structures were created and these have been in place since the 1st October 2011.
10. Since 1st October 2011, all services have been shared at senior management level and middle management level, with the exception of the Finance team at both Councils, which have remained separate.

Savings from Shared Services

11. In total, the Council is saving approximately £600,000 per annum as a result of shared services. This would equate to a Council Tax increase of approximately 12%.
12. The total amount recharged to South Hams District Council for shared services provided by West Devon Borough Council in 2011/12 was approximately £600,000. Similarly, the total amount recharged to West Devon Borough Council for shared services provided by South Hams District Council in 2011/12 was approximately £1.6m. The difference is largely due to the fact that the revenues and benefits service, the payroll service and the internal audit service are wholly provided by

South Hams District Council to West Devon Borough Council and this equates to approximately £800,000.

Pension Liability

13. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The pension fund liability at 31 March 2012 is estimated at £29M which compares with £15M at 31 March 2011. The significant increase in the net deficit is mainly due to the fact that the actuarial assumptions used to value the liabilities have moved unfavourably and the assets have not earned as much return as was expected last year. This has led to an overall actuarial loss over the year of £13.2m charged to the Income and Expenditure Account. The deficit is derived by calculating the pension assets and liabilities at 31 March 2012. See Note 37 for further information.

Icelandic Banks

14. At the 20 April 2012 the Council had £351,765 frozen in the Heritable Bank which is UK registered and regulated but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.
15. The Council placed a deposit of £1,250,000 on 25th September 2008. At the time the deposit was placed the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits) which were within the deposit policy approved by the Council. Both these ratings indicate low risk.
16. The Administrators had paid ten dividends at the end of the financial year and they have said that up to 85% of liabilities should eventually be paid. The Administrators have kept the bank trading and will slowly wind down the business over a period of years. Further information is provided in Note 12.

Capital spending

17. The Council spent more than £3m on capital projects. The main areas of expenditure were as follows:
- house renovation grants (£0.7m)
 - improvements to parks and open spaces (£0.5m)
 - vehicle replacements (£0.5m)
 - harbour infrastructure (£0.5m)
 - affordable housing (0.4m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 33).

Issue of accounts

18. The Head of Finance and Audit authorised the unaudited Statement of Accounts 2011/12 for issue on the 29th June 2012.

FINANCIAL NEEDS AND RESOURCES

19. The Authority maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management enabling the Council to build up funds to meet known and potential financial commitments.
20. Revenue reserves have increased by £152,000 from the preceding year and stand at £9.1m at 31 March 2012. Revenue reserves may be used to finance capital or revenue spending plans. The General Fund Balance (un-earmarked reserve) stands at £2.4m.
21. Capital Reserves are represented by capital receipts and capital contributions unapplied on the balance sheet. The balance at 31 March 2012 amounts to £5.9m which compares to £6.8m at the end of the previous year.

LOOKING FORWARD TO THE FUTURE

22. Overall, the Council's finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets, and value for money is achieved for our residents. In addition, a planning mechanism is in place which focuses, not only on one year, but also on the longer term. The Council's Medium Term Financial Strategy is being considered by the Executive at its September 2012 meeting.

23. The Council has embarked on the 2015 Transformation Programme in order to make the Authority fit for purpose in a rapidly changing world. Key projects include a strategic review of our assets; the way we use ICT; how best to introduce localism into our communities and how we ensure our staff are able to work more effectively to meet the future needs of our customers and the wider community.

FURTHER INFORMATION

24. The following pages explain the Council's financial position in detail including further details of the Authority's activities, cash flows and reserves. Further information on the Council's service priorities and issues can be found on the Council's website under "Your Council".

Lisa Buckle BSc, ACA
Head of Finance and Audit

Section 2

Core Financial Statements

SECTION 2A. MOVEMENT IN RESERVES STATEMENT

Movement in Reserves Statement

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010	1,600	7,878	7,595	107	17,180	20,268	37,448
Movement in reserves during 2010/11							
Surplus or (deficit) on the provision of services	3,017	0	0	0	3,017	0	3,017
Other Comprehensive Income and Expenditure	0	0	0	0	0	20,444	20,444
Total Comprehensive Income and Expenditure	3,017	0	0	0	3,017	20,444	23,461
Adjustments between accounting basis & funding basis under regulations (Note 4)	(3,576)	0	(1,064)	113	(4,527)	4,527	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(559)	0	(1,064)	113	(1,510)	24,971	23,461
Transfers to/from Earmarked Reserves (Note 5)	275	(275)	0	0	0	0	0
Increase/Decrease in 2010/11	(284)	(275)	(1,064)	113	(1,510)	24,971	23,461

SECTION 2A. MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2011 Carried forward	1,316	7,603	6,531	220	15,670	45,239	60,909
Movement in Reserves during 2011/12							
Surplus or (deficit) on provision of Services	(2,333)	0	0	0	(2,333)	0	(2,333)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(10,194)	(10,194)
Total Comprehensive Income and Expenditure	(2,333)	0	0	0	(2,333)	(10,194)	(12,527)
Adjustments between accounting basis & funding basis under regulations (Note 4)	2,485	0	(897)	1	1,589	(1,589)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	152	0	(897)	1	(744)	(11,783)	(12,527)
Transfers to/from Earmarked Reserves (Note 5)	975	(975)	0	0	0	0	0
Increase/Decrease in Year	1,127*	(975)*	(897)	1	(744)	(11,783)	(12,527)
Balance at 31 March 2012 Carried forward	2,443	6,628	5,634	221	14,926	33,456	48,382

**At 1 April 2011, the Contingency and Working Balance Reserves had a combined balance of £867,000 within earmarked reserves. However, for financial planning purposes these reserves have been treated as un-earmarked balances. To reflect this, the balances have been moved from earmarked reserves to the General Fund Balance.*

SECTION 2B. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2010/11				2011/12		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service Division	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
8,731	(7,444)	1,287	Central services to the public	8,340	(7,223)	1,117
3,130	(708)	2,422	Cultural & Related	3,094	(572)	2,522
8,194	(1,985)	6,209	Environmental	8,120	(2,041)	6,079
4,154	(5,196)	(1,042)	Highways and transport	3,469	(5,027)	(1,558)
22,943	(21,622)	1,321	Housing	23,873	(22,290)	1,583
5,863	(2,804)	3,059	Planning & Development	3,839	(2,913)	926
2,227	(93)	2,134	Corporate and democratic core	1,735	(12)	1,723
43	(50)	(7)	Non distributed costs	247	(21)	226
(6,588)	(302)	(6,890)	Exceptional Items (note 2)	0	0	0
48,697	(40,204)	8,493	Cost of Services	52,717	(40,099)	12,618
1,474	(15)	1,459	Other operating expenditure (Note 6)	1,588	0	1,588
981	(1,231)	(250)	Financing and investment income and expenditure (Note 7)	222	(431)	(209)
0	(12,719)	(12,719)	Taxation and non-specific grant income (Note 8)	31	(11,695)	(11,664)
51,152	(54,169)	(3,017)	(Surplus) or Deficit on Provision of Services	54,558	(52,225)	2,333
		(4,156)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(3,039)
		(16,288)	Actuarial (gains)/losses on pension assets / liabilities			13,233
		(20,444)	Other Comprehensive Income and Expenditure			10,194
		(23,461)	Total Comprehensive Income and Expenditure			12,527

SECTION 2C. BALANCE SHEET

31 March 2011		Notes	31 March 2012
59,344	Property, Plant & Equipment	9	61,856
459	Investment Property	10	322
165	Intangible Assets	11	115
158	Long Term Investments	12	68
-	- accrued interest on investments		-
21	Deferred Credits		-
129	Long Term Debtors	14	91
60,276	Long Term Assets		62,452
14,729	Short Term Investments	12	15,156
157	- accrued interest on investments	12	41
106	Inventories	13	138
3,661	Short Term Debtors	14	4,769
5,611	Cash and Cash Equivalents	15	2,192
24,264	Current Assets		22,296
(3,702)	Short Term Creditors *	16	(3,433)
(132)	Short Term Revenue Grants in Advance *	31	(186)
(933)	Provisions	17	(62)
(4,767)	Current Liabilities		(3,681)
-	Long Term Creditors	17	(94)
(3,448)	Long Term Revenue Grants in Advance - Section 106 Deposits	31	(3,518)
(141)	Provisions	17	-
(14,861)	Pensions Liability	37	(28,927)
(414)	Capital Grants- Receipts in Advance	31	(146)
(18,864)	Long Term Liabilities		(32,685)
60,909	Net Assets		48,382
15,670	Usable Reserves	18	14,926
45,239	Unusable Reserves	19	33,456
60,909	Total Reserves		48,382

* Short term Creditors have been restated to separately identify short term revenue grants received in advance.

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

The unaudited accounts were issued on 29 June 2012. The audited accounts were issued on 27 September 2012.

SECTION 2C. BALANCE SHEET

SECTION 2D. CASH FLOW STATEMENT

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

2010/11 £000		2011/12 £000
(2,447)	Net (surplus) or deficit on the provision of services	2,333
3,187	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 20)	(1,941)
(5,426)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 21)	(4,314)
(669)	Interest received	(345)
(5,355)	Net cash outflows/ (inflow) from Operating Activities	(4,267)
1,689	Net increase/ (decrease) in Investing Activities (Note 22)	1,782
3,438	Net cash outflow/ (inflow) from Financing Activities (Note 23)	5,904
(228)	Net (increase) or decrease in cash and cash equivalents	3,419
5,383	Cash and cash equivalents at the beginning of the reporting period	5,611
5,611	Cash and cash equivalents at the end of the reporting period (Note 15)	2,192

Section 3

Notes to the

Financial Statements

SECTION 3. NOTES TO THE ACCOUNTS

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SECTION 3. NOTES TO THE ACCOUNTS

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

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

The item in the Authority's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>The value of pension assets is estimated based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets, but this difference is not considered to be material.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2 million.</p> <p>However, the assumptions interact in complex ways. For example, in 2011/12, the Authority's actuaries advised that the pension liability had decreased by £46,000 as a result of estimates being corrected as a result of experience and increased by £11.2m attributable to the updating of assumptions</p> <p>Please refer to Note 37 for further information about the assumptions used by the actuaries.</p>

SECTION 3. NOTES TO THE ACCOUNTS

2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following exceptional items were included on the face of the CIES in 2010/11. There are no exceptional items in 2011/12.

	Expenditure* £000	Income** £000	Net £000
Pension Liability – past service gain	(7,805)		(7,805)
Senior Management Review:			
• Redundancy provisions	783	(196)	587
• Strain payment provisions	434	(106)	328
TOTAL	(6,588)	(302)	(6,890)

*NB * Includes direct payments in respect of South Hams employees and contributions paid to West Devon BC in respect of their costs.*

*** Represents contributions received from West Devon BC*

3. EVENTS AFTER THE BALANCE SHEET DATE

The draft Statement of Accounts (SOA) for 2011/12 was certified by the Head of Finance and Audit on 29 June 2012. This is also the date up to which events after the balance sheet date have been considered. The SOA will be reviewed by the Audit Committee on 17 July 2012.

SECTION 3. NOTES TO THE ACCOUNTS

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

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

2011/12	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Charges for depreciation and impairment of non-current assets	1,809			(1,809)
Revaluation losses on Property Plant and Equipment	577			(577)
Movements in the market value of Investment Properties	17			(17)
Amortisation of intangible assets	95			(95)
Capital grants and contributions applied	(223)			223
Revenue expenditure funded from capital under statute	159			(159)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	358			(358)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Capital expenditure charged against the General Fund	(728)			728
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(15)		15	0
Application of grants to capital financing transferred to the Capital Adjustment Account			(14)	14

SECTION 3. NOTES TO THE ACCOUNTS

2011/12	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(300)	300		0
Transfer of unattached capital receipts	(135)	135		
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,335)		1,335
Repayment of mortgage and parish loans		3		(3)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 37)	2,199			(2,199)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,366)			1,366

2011/12	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	31			(31)
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	7			(7)
Total Adjustments	2,485	(897)	1	(1,589)

SECTION 3. NOTES TO THE ACCOUNTS

2010/11 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Charges for depreciation and impairment of non-current assets	1,621			(1,621)
Revaluation losses on Property Plant and Equipment	2,754			(2,754)
Movements in the market value of Investment Properties	(272)			272
Amortisation of intangible assets	113			(113)
Capital grants and contributions applied	(371)			371
Revenue expenditure funded from capital under statute (REFCUS)	247			(247)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	127			(127)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>				
Capital expenditure charged against the General Fund	(508)			508
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(131)		131	0
Application of grants to capital financing transferred to the Capital Adjustment Account			(18)	18

SECTION 3. NOTES TO THE ACCOUNTS

2010/11 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(120)	120		0
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,559)		1,559
Transfer of unattached capital receipts	(335)	335		0
Capital financing accrual reversing		36		(36)
Repayment of mortgage and parish loans		4		(4)
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(236)			236
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	(4,516)			4,516
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,369)			1,369

2010/11 Comparatives	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(17)			17
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	7			(7)
Total Adjustments	(3,006)	(1,064)	113	3,957

SECTION 3. NOTES TO THE ACCOUNTS

5. TRANSFERS TO/ FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

	Balance at 31 March 2011	Transfers Out	Transfers In	Balance at 31 March 2012
	£ 000	£ 000	£ 000	£ 000
EARMARKED RESERVES				
General Fund				
Working Balance	750	(750)	-	-
Contingency	117	(117)	-	-
Affordable Housing	946	(414)	8	540
Drawing Office	10			10
Strategic Issues	1,096	(1)	230	1,325
Community Parks and Open Spaces	74	(1)	17	90
Economic Regeneration & Community Wellbeing	36	(27)	12	21
Pension Fund Strain	-		62	62
Repairs and Maintenance	249		175	424
Members Sustainable Community Locality Fund	-		25	25
Land and Development	400	(148)	30	282
Ferry Repairs and Renewals	342	(17)	25	350
Economic Initiatives	253	(31)		222
Vehicles and Plant Renewals	292	(495)	525	322
Pay and Display Equipment	105	(87)	21	39
On-Street Parking	33		11	44
Print Equipment	66		3	69
ICT Development	542			542
Sustainable Waste Management	215	(64)		151
Community Grants	14	(12)		2
District Elections	46	(44)	28	30
Beach Safety	17			17
Planning Policy & Major Developments	1,210	(207)		1,003
Building Control	49		50	99
Section 106 agreements	95	(46)		49
Revenue Grants	243	(81)	225	387
Capital Programme	-		198	198
Sub Total	7,200	(2,542)	1,645	6,303
Specific Reserves – Salcombe Harbour				
Pontoons	140	(100)	1	41
Harbour Renewals	123	(29)	1	95
General Reserve	135	(47)	96	184
Sub Total	398	(176)	98	320
Trust & Bequest	5			5
TOTAL EARMARKED REVENUE RESERVES	7,603	(2,718)	1,743	6,628

SECTION 3. NOTES TO THE ACCOUNTS

6. OTHER OPERATING EXPENDITURE

2010/11 £000s		2011/12 £000s
1,474	Parish council precepts	1,537
(15)	(Gains)/losses on the disposal of non-current assets	51
1,459	Total	1,588

7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2010/11 £000s		2011/12 £000s
10	Interest payable and similar charges	2
(563)	Interest receivable and similar income	(229)
(335)	Other investment income	(142)
16	Investment (gains)/ losses	(60)
827	Pensions interest cost and expected return on pensions assets	209
(205)	Investment properties	11
(250)	Total	(209)

8. TAXATION AND NON SPECIFIC GRANT INCOME

2010/11 £000s		2011/12 £000s
(6,586)	Council tax income	(6,663)
(17)	Collection Fund adjustment:	31
(30)	Collection Fund - distribution of surplus	(80)
(4,845)	Non domestic rates	(3,211)
	Non ring- fenced government grants :	
(704)	• Revenue Support Grant	(992)
(35)	• Area Based Grant	0
0	• Council Tax Freeze Grant	(128)
0	• New Homes Grant	(298)
0	• Local Services Support Grant	(85)
(502)	Capital grants and contributions	(238)
(12,719)	Total	(11,664)

SECTION 3. NOTES TO THE ACCOUNTS

9. PROPERTY, PLANT AND EQUIPMENT

Movements in 2011/12:

	Land and Buildings	Vehicles, Plant, Furniture & Equipm't	Infra-structure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2011	52,661	7,535	3,566	671	1,266	65,699
Additions	345	734	190	51	776	2,096
revaluation increases/ (decreases) recognised in the Revaluation Reserve	2,512					2,512
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(994)					(994)
derecognition – disposals	(160)	(162)				(322)
other movements in cost or valuation	(37)	479	118		(597)	(37)
At 31 March 2012	54,327	8,586	3,874	722	1,445	68,954
Accumulated Depreciation and Impairment at 1 April 2011	1,669	3,413	1,273			6,355
charge for 2011/12	843	824	142			1,809
depreciation written out to the Revaluation Reserve	(575)					(575)
depreciation written out to the Surplus/Deficit on the Provision of Services	(473)					(473)
impairment losses/(reversals) recognised in the Revaluation Reserve	48					48
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	72					72
derecognition-disposals	(6)	(158)				(164)
other movements in depreciation and impairment (reclassifications)	26					26
At 31 March 2012	1,604	4,079	1,415	-	-	7,098
Balance Sheet amount at 31 March 2012	52,723	4,507	2,459	722	1,445	61,856
Balance Sheet amount at 31 March 2011	50,992	4,122	2,293	671	1,266	59,344

SECTION 3. NOTES TO THE ACCOUNTS

Comparative Movements in 2010/11:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipm't £000	Infrastruct ure Assets £000	Communit y Assets £000	Assets Under Constructi on £000	Total Property, Plant and Equipment £000
Cost or Valuation						
At 1 April 2010	51,340	6,972	3,556	410	748	63,026
additions	312	1,070	10	261	518	2,171
revaluation increases/ (decreases) recognised in the Revaluation Reserve	3,429					3,429
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,384)					(2,384)
derecognition – disposals		(507)				(507)
other movements in cost or valuation	(36)					(36)
At 31 March 2011	52,661	7,535	3,566	671	1,266	65,699
Accumulated Depreciation and Impairment						
at 1 April 2010	1,983	3,138	1,090			6,211
depreciation charge	663	775	183			1,621
Depreciation written out to the Revaluation Reserve	(740)					(740)
impairment losses/(reversals)	(258)					(258)
derecognition – disposals	-	(500)				(500)
other movements in depreciation and impairment	21					21
At 31 March 2011	1,669	3,413	1,273	0	0	6,355
Accumulated Impairment at 1 April 2010	21	-		-	-	21
Charge for 2010/11	-	-	-		-	-
Derecognition – disposals	(21)					(21)
At 31 March 2011	-	-	-	-	-	-
Net Book Value						
at 31 March 2010	49,336	3,834	2,466	410	748	56,794
at 31 March 2011	50,992	4,122	2,293	671	1,266	59,344

SECTION 3. NOTES TO THE ACCOUNTS

Depreciation

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

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

Capital Commitments

The Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. The major commitment of £300,000 relates to the re-routeing of Dartmouth Ford Leat. This scheme is due to be completed in 2012/13.

SECTION 3. NOTES TO THE ACCOUNTS

Revaluations

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

The valuations of real estate were carried out by an external contractor under the supervision of Stephen Forsey FRICS, the Council's Development Surveyor. Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year. The basis of valuation is set out in the Statement of Accounting policies.

	Land and buildings £000s	Vehicles, plant furniture & equipment £000s	Total £000s
Valued at historical cost	39	4,507	4,546
New certified valuation included in balance sheet			
2011/2012	14,116		14,116
2010/2011	24,049		24,049
2009/2010	11,315		11,315
2008/2009	419		419
2007/2008	2,785		2,785
Total	52,723	4,507	57,230

SECTION 3. NOTES TO THE ACCOUNTS

10. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2010/11 £000	2011/12 £000
Rental income from investment property	(61)	(57)
Direct operating expenses arising from investment property	53	50
Net (gain)/ loss	(8)	(7)

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal.

The following table summarises the movement in the fair value of investment properties over the year:

	2010/11 £000	2011/12 £000
Balance at start of the year	378	459
Additions	0	0
Disposals	(119)	(200)
Net gains/losses from fair value adjustments	200	
Transfers (to) / from Property, Plant and Equipment	0	63
Balance at end of the year	459	322

SECTION 3. NOTES TO THE ACCOUNTS

11. INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets comprise purchased licenses only (the Council does not currently have any internally generated software on its balance sheet).

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful live assigned to the major software suites used by the Authority is 3 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £95,000 charged to revenue in 2011/12 was charged to the cost centres holding the assets.

The movement on Intangible Asset balances during the year is as follows:

	2010/11	2011/12
	£000s	£000s
Gross carrying amount	340	285
Accumulated amortisation	(100)	(120)
Net carrying amount at start of year	240	165
Purchases	38	45
Amortisation for the period	(113)	(95)
Net carrying amount at end of year	165	115

Comprising:

Gross carrying amount	285	330
Accumulated amortisation	(120)	(215)
Net carrying amount at end of year	165	115

SECTION 3. NOTES TO THE ACCOUNTS

12. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

Assets

- bank deposits
- trade receivables
- loans receivables
- investments

Derivatives

- swaps
- forwards
- options

Fair Values of Assets and Liabilities

Financial liabilities should be measured initially at fair value. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments by using the following assumptions:

- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Any difference between the carrying amount (balance sheet value) and fair value (arm's length price) should be disclosed in the notes to the accounts.

SECTION 3. NOTES TO THE ACCOUNTS

Recognition and measurement of financial instruments

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

Financial Instrument	Basis of Measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates
Investments – Other	Held at carrying value on basis of materiality	See also accounting policy on cash equivalents.
Investments – Forward Purchases	Fair value through Income & Expenditure	Please refer to next section.
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate.
Operational creditors	Held at invoiced or billed amount	Carrying amount is a reasonable approximation of fair value for these short term liabilities

SECTION 3. NOTES TO THE ACCOUNTS

The carrying amount and fair values for investments at 31 March 2012 are shown in the following table:

Investment Type	Carrying Amount (net of interest)	Interest due at year end	Gross carrying Amount	Fair Value*
	£000	£000	£000	£000
Long term – Heritable Bank	68	N/A	68	N/A
Short term – Heritable Bank	156	18	174	N/A
Short term – other	15,000	16	15,016	15,025
TOTAL	15,224	34	15,258	

* The fair value of the investments is higher than the carrying amount, because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate is higher than the rates available for similar loans at the balance sheet date. Please note that no fair valuation is available for the Heritable Bank investment due to impairment issues (see next section).

Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. This authority had £1.25m deposited with the Heritable Bank at an interest rate of 6.25%.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

SECTION 3. NOTES TO THE ACCOUNTS

Heritable Bank

Heritable bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008.

At the time that Local Authority Accounting Panel (LAAP) Bulletin 82 Update 5 was issued, the total amount to be received was estimated to be between 86% and 90% of the claim and the ninth interim dividend was due in October 2011 with no estimate as to the amount of this payment. The tenth progress report from the administrators was issued on 4 November 2011. A further report covering the three months to 31 December 2011 was issued in February 2012. These reports have not provided a revised estimate of the base case return which therefore remains at the level estimated in Update 5. Since then the following interim payments have been made; the ninth interim payment was made in October 2011, and was for 4.18% of the claim, the tenth interim payment was made in January 2012 and was for 3.32% of the claim.

In cash terms a total of £851,000 has now been received by South Hams District Council at 31 March 2012.

In view of the above information, LAAP recommends that the estimate of the recoverable amount is based on a total repayment of 88% based on the mid point of the base case return and that subsequent repayments are profiled equally with the exception of the final repayment. This will produce a revised repayment schedule as follows:

Date	Repayment	Date	Repayment
April 2012	3.79%	April 2013	5.81%
July 2012	3.50%		
October 2012	3.50%		
January 2013	3.50%		

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

The impairment loss recognised in the Income and Expenditure Account has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

SECTION 3. NOTES TO THE ACCOUNTS

Adjustments to the assumptions will be made in future accounts as more information becomes available.

Summary details of the investment made are as follows:

Date Invested	Maturity Date	Amount Invested £	Interest Rate %	Dividends Received £	Carrying Amount £	Impairment £
25/09/08	22/12/08	1,250,000	6.25%	851,000	224,000	175,000

In previous years the Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £237,000 was transferred to the Financial Instruments Adjustment Account. However, this was a temporary arrangement and the potential impairment loss was brought into account in the 2010/11 financial year.

Forward Deposits

The Council committed £7.5m in "Forward Deposits" which were included as derivatives in the Balance Sheet i.e. at "fair value through profit and loss" in 2008/09. A forward deal is regarded as a derivative between the period of trade date and start date. When the investment passes the start date it is classified under loans and receivables.

The details are summarised in the following table:

Deposit value	£2,500,000	£5,000,000
Trade date	05/06/2007	05/06/2007
Start (settlement) date	23/07/2008	31/07/2008
Maturity Date	22/07/2011	30/07/2010
Forward Interest Rate	6.15%	6.18%
Market Interest Rate at 23/07/08 and 31/07/08	5.88%	5.64%
Duration (years)	3.0	2.0
Deposit Value – amortised cost at year end	0 (de-recognised)	0 (de-recognised)

Any gains (or losses) are unwound after the contract has been settled and continue until maturity. There are no statutory reversals for these transactions. As a result, any such gains or losses are recognised in each financial year for the duration of the investment, but are neutral over its life.

SECTION 3. NOTES TO THE ACCOUNTS

Summary of Financial Instruments

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

	Long-term		Current	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
Investments				
Loans and receivables (principal)	158	68	14,729	15,156
Loans and receivables (accrued interest)			150	34
Total investments	158	68	14,879	15,190
Debtors				
Loans and receivables	150	91		
Financial assets carried at contract amounts			1,332	1,348
Total Debtors	150	91	1,332	1,348
Creditors				
Financial liabilities at amortised cost	(141)	(94)		
Financial liabilities carried at contract amount			(2,464)	(1,449)
Total creditors	(141)	(94)	(2,464)	(1,449)

SECTION 3. NOTES TO THE ACCOUNTS

Income, Expense, Gains & Losses

	Financial Assets 2010/11			Financial Assets 2011/12		
	Investments £000	Investments at Fair Value through I & E £000	Total £000	Investments £000	Investments at Fair Value through I & E £000	Total £000
Losses on derecognition		9	9		2	2
Reductions in fair value	1	6	7			0
Total expense in Surplus or deficit on the provision of Services	1	15	16	0	2	2
Interest income	(361)	(107)	(468)	(194)	(47)	(241)
Interest income accrued on impaired financial assets	(32)		(32)	14		14
Increases in fair value			0	(62)		(62)
Total expense in Surplus or deficit on the provision of Services	(393)	(107)	(500)	(242)	(47)	(289)
Net (gain)/loss for the year	(392)	(92)	(484)	(242)	(45)	(287)

SECTION 3. NOTES TO THE ACCOUNTS

13. INVENTORIES

2010/11 TOTAL £000	Depot 2011/12 £000	Printing Materials 2011/12 £000	TOTAL £000	
101	Balance at 1 April	92	14	106
718	Purchases	652	21	673
(713)	Recognised as an expense in the year	(618)	(23)	(641)
106	Balance at 31 March	126	12	138

14. DEBTORS

Short term

31.3.2011 £000s		31.3.2012 £000s
29	HMRC	130
1,512	Other Government departments	732
518	Local authorities	733
146	NNDR Debtor (Government)	790
60	Council tax payers	48
1,396	Other entities & individuals	2,336
3,661	Totals	4,769

Long term

31.3.2011 £000s		31.3.2012 £000s
106	Strain payments payable from West Devon Borough Council	71
23	Parish loans	20
129	Totals	91

SECTION 3. NOTES TO THE ACCOUNTS

15. CASH AND CASH EQUIVALENTS

31.3.2011 £000s		31.3.2012 £000s
(894)	Cash held by the Authority	(1,223)
4,000	Bank current accounts	3,415
2,505	Money Market Funds	0
5,611	Total Cash and Cash Equivalents	2,192

16. CREDITORS

31.3.2011 £000s		31.3.2012 £000s
(248)	HMRC	(233)
(157)	Other Government departments*	(133)
(340)	Other local authorities*	(405)
(1,884)	Sundry creditors*	(1,745)
(120)	Employee benefits	(126)
(47)	Council taxpayers	(47)
(906)	Council taxpayers – preceptors a/c	(744)
(3,702)	Totals	(3,433)

* 2010/11 Creditors have been restated to exclude revenue grants received in advance (now disclosed separately on the Balance Sheet).

SECTION 3. NOTES TO THE ACCOUNTS

17. PROVISIONS

Provisions payable within twelve months of the balance sheet date are classified as current liabilities; provisions payable more than twelve months from the balance sheet date are classified as long term liabilities. The two elements have been combined in the following table:

	Leisure Staffing	Senior Management Review/ Other Redundancies	Total
	£000s	£000s	£000s
Balance at 1 April 2011	150	924	1,074
Provisions made in year		62	62
Amounts used in year	(150)	(783)	(933)
Transfer to short term creditors		(47)	(47)
Transfer to long term creditors		(94)	(94)
Balance at 31 March 2012	0	62	62

Leisure Centre Staffing - The provision listed above reflects the maximum potential payment to the Council's Leisure Contractor in consideration of an agreement to vary the terms of the Business Transfer Agreement in order to remove the obligations relating to Single Status.

Senior Management Review - A short term provision of £783,000 was made in 2010-11 to reflect the redundancy payments payable to employees leaving in 2011. In addition, a long term provision of £141,000 was made which represents a contribution towards the pension fund strain payments incurred by West Devon Borough Council from its departing staff. Given the certainty of the payment and the fact that the staff have now left the employment of the Council it is considered appropriate to reclassify the liability as a creditor. Please refer to the Explanatory Foreword for a summary of the Management Review.

Other Redundancies - A decision to make a member of staff redundant was made in 2011-12, but the employee in question is not leaving the employment of the Council until the 2012-13 financial year. A short term provision of £62,000 has been made for the redundancy payment payable in 2012-13.

SECTION 3. NOTES TO THE ACCOUNTS

18. USABLE RESERVES

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

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

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

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

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

19. UNUSABLE RESERVES

31.3.2011 £000s		31.3.2012 £000s
11,875	Revaluation Reserve	14,710
48,214	Capital Adjustment Account	47,700
(14,861)	Pensions Reserve	(28,927)
130	Collection Fund Adjustment Account	99
(119)	Accumulated Absences Account	(126)
45,239	Total Unusable Reserves	33,456

SECTION 3. NOTES TO THE ACCOUNTS

Revaluation Reserve

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

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

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

31.3.2011 £000s		31.3.2012 £000s	31.3.2012 £000s
7,823	Balance at 1 April		11,875
5,176	Upward revaluation of assets	3,807	
(1,020)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(768)	
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		3,039
4,156	Difference between fair value depreciation and historical cost depreciation	(182)	
(104)	Accumulated gains on assets sold or scrapped	(22)	
-	Amount written off to the Capital Adjustment Account		(204)
(104)			
11,875	Balance at 31 March		14,710

SECTION 3. NOTES TO THE ACCOUNTS

Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2010/11 £000		2011/12 £000	2011/12 £000
49,714	Balance at 1 April		48,214
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(1,621)	▪ Charges for depreciation of non-current assets	(1,809)	
(2,183)	▪ Revaluation losses on Property, Plant and Equipment	(577)	
272	▪ Revaluation gains/(losses) on Investment Properties	(17)	
(113)	▪ Amortisation of intangible assets	(95)	
(247)	▪ Revenue expenditure funded from capital under statute (REFCUS) – funded from capital receipts	(159)	
(127)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(358)	
(4,019)	Total		(3,015)
0	Amounts of Revaluation Reserve balance written off on disposal or sale of Property, Plant & Equipment		22
104	Adjusting amounts written out of the Revaluation Reserve		182
(3,915)	Net written out amount of the cost of non-current assets consumed in the year		(2,811)
	Capital financing applied in the year:		
1,559	Use of the Capital Receipts Reserve to finance new capital expenditure	1,335	
371	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	223	
17	Application of grants to capital financing from the Capital Grants Unapplied Account	14	
(36)	Reversal of capital financing accrual	0	
508	Capital expenditure charged against the General Fund	728	
(4)	Repayment of parish loans	(3)	
2,415	Total		2,297
48,214	Balance at 31 March		47,700

SECTION 3. NOTES TO THE ACCOUNTS

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Authority has used this Account to mitigate the effects of the potential impairment losses on the Council's investment with the Heritable Bank on the Income and Expenditure Account in previous financial years as permitted by regulations (Statutory Instrument 2009 No.321). However, this was a temporary arrangement and these entries were required to be fully reversed in the financial year beginning on 1st April 2010. The impact on the General Fund has been negated by a contribution from the Strategic Issues Reserves.

31.3.2011		31.3.2012
£000s		£000s
(236)	Balance at 1 April	0
	Investment Interest Due	
	Movement in impairment (increase)/ decrease	
236	Transfer of balance to Comprehensive Income & Expenditure Account	0
0	Balance at 31 March	0

SECTION 3. NOTES TO THE ACCOUNTS

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31.3.2011		31.3.2012
£000s		£000s
(37,034)	Balance at 1 April	(14,861)
16,288	Actuarial gains or losses on pensions assets and liabilities	(13,233)
4,809	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(2,440)
1,369	Employer's pensions contributions and direct payments to pensioners payable in the year	1,366
(293)	Accrued strain payments*	(52)
-	Reversal of accrued strain payments	293
(14,861)	Balance at 31 March	(28,927)

* The 2010/11 accrual relates to the Senior Management Review and has been reversed in 2011/12. A further accrual of £52,000 has been provided for following a redundancy decision in 2011/12 where the employee is leaving in 2012/13.

SECTION 3. NOTES TO THE ACCOUNTS

Collection Fund Adjustment Account

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

31.3.2011 £000s		31.3.2012 £000s
113	Balance at 1 April	130
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	
17		(31)
130	Balance at 31 March	99

SECTION 3. NOTES TO THE ACCOUNTS

Accumulated Absences Account

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

31.3.2011 £000s		31.3.2012 £000s	31.3.2012 £000s
(112)	Balance at 1 April		(119)
112	Settlement or cancellation of accrual made at the end of the preceding year	119	
(119)	Amounts accrued at the end of the current year	(126)	
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(7)
(119)	Balance at 31 March		(126)

SECTION 3. NOTES TO THE ACCOUNTS

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

2010/11 £000s		2011/12 £000s
(1,621)	Depreciation	(1,809)
(2,482)	Impairment & downward valuations	(594)
(113)	Amortisation	(95)
(910)	Increase/(decrease) in Debtors	627
758	Increase/(decrease) in Creditors	910
0	Increase/(decrease) in Inventories	32
6,893	Movement in pension liability	(833)
0	Carrying amount of non-current assets held for sale, sold or derecognised	(358)
662	Other non-cash items charged to the net surplus or deficit on the provision of services	179
3,187	Total	(1,941)

SECTION 3. NOTES TO THE ACCOUNTS

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

2010/11 £000s		2011/12 £000s
0	Proceeds from the sale of Property, Plant & Equipment & Investment Properties	435
(5,426)	Other non-cash items charged to the net surplus or deficit on the provision of services	(4,749)
(5,426)	Total	(4,314)

22. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2010/11 £000s		2011/12 £000s
2,169	Purchase of property, plant and equipment, investment property and intangible assets	2,092
164	Net (increase)/decrease in investments	277
(157)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(304)
(487)	Other receipts from investing activities (capital grants & contributions)	(283)
1,689	Net cash flows from investing activities	1,782

SECTION 3. NOTES TO THE ACCOUNTS

23. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities are as follows:

2010/11 £000s		2011/12 £000s
(1,544)	Net NNDR receipts paid to/ (received) from Central Government	583
4,982	Net Council Tax receipts paid to / (received) from major preceptors	5,321
3,438	Total	5,904

SECTION 3. NOTES TO THE ACCOUNTS

24. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

Service Income & Expenditure 2011-12

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	CDC & NDC	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(653)	(371)	(1,193)	(4,991)	(579)	(2,510)	(32)	(10,329)
Government grants & contributions	(6,570)	(201)	(849)	(37)	(21,711)	(403)	0	(29,771)
Total Income	(7,223)	(572)	(2,042)	(5,028)	(22,290)	(2,913)	(20)	(40,100)
Employee expenses	1,155	284	3,532	1,260	937	2,168	453	9,789
Other service expenses	6,374	1,767	3,449	1,610	22,056	772	557	36,585
Depreciation / amortisation	10	881	411	362	526	237	0	2,427
Support service recharges	801	162	728	237	355	663	971	3,917
Total Expenditure	8,340	3,094	8,120	3,469	23,874	3,840	1,981	52,718
Net Expenditure	1,117	2,522	6,078	(1,559)	1,584	927	1,949	12,618

SECTION 3. NOTES TO THE ACCOUNTS

Service Income & Expenditure 2010-11

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	Exceptional & CDC & NDC	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(831)	(298)	(1,152)	(4,944)	(848)	(2,466)	(409)	(10,948)
Government grants & contributions	(6,613)	(410)	(833)	(252)	(20,774)	(338)	(36)	(29,256)
Total Income	(7,444)	(708)	(1,985)	(5,196)	(21,622)	(2,804)	(445)	(40,204)
Employee expenses	1,250	372	3,673	1,296	1,038	2,202	1,486	11,317
Adjustment re pension liability							(7,805)	(7,805)
Other service expenses	6,426	2,159	3,331	2,444	21,305	1,024	718	37,406
Depreciation / amortisation	10	357	352	151	216	1,819	0	2,905
Support service recharges	1,045	243	838	263	384	818	1,283	4,874
Total Expenditure	8,731	3,131	8,194	4,154	22,943	5,863	(4,318)	48,697
Net Expenditure	1,287	2,423	6,209	(1,042)	1,321	3,059	(4,763)	8,493

SECTION 3. NOTES TO THE ACCOUNTS

25. TRADING OPERATIONS - GENERAL

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. The Council operates a number of trading services:

2010/11 (Surplus)/ Deficit £000s	Service	Turnover £000s	Expenditure £000s	2011/12 (Surplus)/ Deficit £000s
(1,690)	Car & Boat Parking	(2,951)	1,492	(1,459)
(15)	Dartmouth Ferry	(855)	843	(12)
1,271	Employment Estates*	(1,281)	488	(793)
(73)	Pannier Markets	(135)	48	(87)
(50)	Salcombe Harbour	(958)	862	(96)
10	Trade Refuse	(751)	776	25
(547)	Net surplus on trading units	(6,931)	4,509	(2,422)

N.B. Employment estates were revalued in 2010/11 and incurred revaluation losses of £2,067,000

Car & Boat Parking

The Council provides off-street parking at an appropriate level according to demand and environmental impact. Charges are made at a level which will ensure that the provision and management of facilities are not a cost burden to local Council Tax payers.

Dartmouth Ferry

The Council operates a public ferry service for cars and foot passengers across the River Dart between Kingswear and Dartmouth.

Employment Estates

The Council undertakes the programmed development and letting of identified employment sites to generate quality employment opportunities.

Pannier Markets

The Council operates weekly markets in Totnes, Kingsbridge and Ivybridge as permitted by statutory powers and thereby maintains the tradition of market towns for the benefit of customers, traders and the towns as a whole.

Salcombe Harbour

The Harbour Board aims to improve, maintain and manage the whole of the Salcombe-Kingsbridge Estuary for the benefit of users, who include commercial fishermen and the sailing communities.

Trade Refuse

The Council operates a trade refuse collection service.

SECTION 3. NOTES TO THE ACCOUNTS

26. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function – ‘details of the scheme for setting charges’. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

Total Building Control 2010/2011 £000s		Chargeable £000s	Non – Chargeable £000s	Total Building Control 2011/2012 £000s
	Expenditure			
365	Employee expenses	244	122	366
22	Premises	0	16	16
14	Supplies and Services	18	8	26
31	Transport	25	11	36
86	Support Services	15	33	48
518	Total Expenditure	302	190	492
	Income			
(408)	Building Regulations Charges	(352)	(11)	(363)
(23)	Other Income	0	(7)	(7)
(431)	Total Income	(352)	(18)	(370)
87	(Surplus)/ Deficit for Year	(50)	172	122

27. AGENCY SERVICES

Certain statutory powers allow the Council to undertake work on behalf of other public bodies. The main arrangement under these powers is the collection of land charge search fees on behalf of Devon County Council. These fees are included within the standard search fee and reimbursed to the County Council on a periodic basis. The amount collected was £25,000 in 2011/2012 (£33,000 in 2010/2011).

SECTION 3. NOTES TO THE ACCOUNTS

28. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year.

2010/11 £000s		2011/12 £000s
252	Allowances	249
21	Expenses	23
273	Total	272

29. OFFICERS' REMUNERATION

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

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

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

In March 2011, a new management team, shared with West Devon Borough Council was appointed. From 1 April 2011, two Corporate Directors and seven Heads of Service now work across both Councils and the new team replaces four Corporate Directors and fifteen Heads of Service. (Further explanation is shown in the Explanatory Foreword).

SECTION 3. NOTES TO THE ACCOUNTS

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

Post	Year	Salary, Fees and Allowances £	Expenses Allowances £	Pension Contribution £	Total £
Strategic Director (Community) – post deleted 31.3.11	2011/12				Nil
	2010/11	80,000	100	11,400	91,500
Strategic Director (Resources) – left 11.7.11	2011/12	22,300	100	4,100	26,500
	2010/11	79,900	100	12,000	92,000
Legal Services Manager / Monitoring Officer (shared)	2011/12	60,200	2,100	11,000	73,300
	2010/11	56,700	100	8,500	65,300
Director – Shared Services (wef 1.4.11)	2011/12	75,800	3,700	13,900	93,400
	2010/11				Nil
Director – Shared Services (wef 1.4.11)	2011/12	71,900	3,300	13,100	88,300
	2010/11				Nil
Head of Corporate Services (wef 1.4.11)	2011/12	62,000	4,400	11,300	77,700
	2010/11				Nil
Head of Environmental Health & Housing (wef 1.4.11)	2011/12	62,000	3,900	11,300	77,200
	2010/11				Nil
Head of Assets (wef 6.6.11)	2011/12	50,800	3,000	9,300	63,100
	2010/11				Nil

Note 1: The total cost of senior employees employed by WDBC have been included in the equivalent note of WDBC's Accounts in accordance with the accounting requirements and is therefore excluded from the table above. In 2011/12 SHDC reimbursed costs amounting to £240,700 in respect of the Chief Executive and four Heads of Services employed by WDBC. SHDC received a reimbursement in 2011/12 from WDBC of £229,400 in respect of the above shared senior employees.

SECTION 3. NOTES TO THE ACCOUNTS

Other officers earning over £50,000

Remuneration band	2010/2011 Number of employees		2011/2012 Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	4		2	2
£55,000 - £59,999	2			2
£60,000 - £64,999	4			4
£65,000 - £69,999				
£70,000 - £74,999				
£75,000 - £79,999				
£80,000 - £84,999				
£85,000 - £89,999				

30. EXTERNAL AUDIT COSTS

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

	2010/11 £ 000	2011/12 £ 000
External audit services	69	87
Statutory Inspection (Use of Resources/ Value For Money Conclusion)	30	0
Certification of grant claims and returns	20	22
Other services	2	0
TOTAL	121	109

SECTION 3. NOTES TO THE ACCOUNTS

31. GRANT INCOME

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

	2010/11 £000	2011/12 £000
Credited to Taxation and Non Specific Grant Income		
Taxation:		
Council Tax income	(6,586)	(6,663)
Adjustment re Collection Fund in respect of previous year	(30)	(80)
Adjustment re Collection Fund in respect of current year	(17)	31
Non domestic rates	(4,845)	(3,211)
Capital grants & contributions:		
- Devon County Council – Torr Quarry		(102)
- Devon County Council – Playbuilder Project	(135)	(45)
- Wakefield Trust – Heath’s Garden	(120)	0
- Section 106 Deposit – Fallapit House	(87)	0
Other capital grants & contributions	(160)	(91)
Non ring- fenced Government grants:		
- Revenue Support Grant	(704)	(992)
- Area Based Grant	(35)	0
- Council Tax Freeze Grant		(128)
- New Homes Grant		(298)
- Local Services Support Grant		(85)
Total	(12,719)	(11,664)
Credited to Services		
Department for Transport – Concessionary Fares	(180)	0
Devon County Council – Torr Quarry Transfer Station	(228)	(243)
Natural England – Area of Outstanding Natural Beauty	(177)	(139)
Section 106 Deposit – Landscaping Projects, Langage	(100)	(53)
Other grants	(593)	(587)
Total	(1,278)	(1,022)

SECTION 3. NOTES TO THE ACCOUNTS

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

Capital Grants Receipts in Advance	31 March 2011 £000	31 March 2012 £000
Department for Communities & Local Govt – Regional Housing Pot	(216)	0
Department for Communities & Local Govt – Implementing E Govt. Grant	(73)	(31)
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(41)	(31)
Total	(414)	(146)

Short Term Revenue Grants Receipts in Advance	31 March 2011 £000	31 March 2012 £000
Department for Communities & Local Govt – New Homes Bonus 2012/13	0	(67)
Devon County Council – Walking for Health	(25)	(10)
Various Devon Local Authorities – Member Development Role	(18)	(28)
Rural Development Agency – Slapton Adaption Plan	(65)	(32)
Other grants	(24)	(49)
Total	(132)	(186)

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	31 March 2011 £000	31 March 2012 £000
Langage Energy Centre	(2,880)	(2,804)
Dartmouth Supermarkets	(422)	(329)
Various other sites	(146)	(385)
Total	(3,448)	(3,518)

SECTION 3. NOTES TO THE ACCOUNTS

32. RELATED PARTIES

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

Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are detailed in Note 31.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 28.

SECTION 3. NOTES TO THE ACCOUNTS

33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2010/11 £000s	2011/12 £000s
Capital Investment		
Property, plant & equipment	2,171	2,096
Intangible assets	38	45
Revenue expenditure funded from capital under statute (REFCUS)	1,111	1,216
Total expenditure	3,320	3,357
Sources of Finance		
Capital receipts	1,559	1,335
Government grants and other contributions	1,221	904
Direct revenue contributions (earmarked reserves)	540	1,118
Total funding	3,320	3,357

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

SECTION 3. NOTES TO THE ACCOUNTS

34. LEASES

Operating Leases

Authority as Lessee

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

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

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

	31 March 2012 £000's	31 March 2011 £000's *
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	173	172
Later than one year and not later than five years	702	698
Later than five years	1,224	1,401
	2,099	2,271

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

	2011/12 £000's	2010/11 £000's *
Minimum lease payments	172	170
Contingent rents	0	0
Sublease payments receivable	0	0
	172	170

*2010/11 comparative figures have been restated following further investigation.

SECTION 3. NOTES TO THE ACCOUNTS

Authority as Lessor

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

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

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

	31 March 2012 £000's	31 March 2011 £000's *
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	594	594
Later than one year and not later than five years	2,375	2,375
Later than five years	31,478	32,072
	34,447	35,041
*2010/11 comparative figures have been restated following further investigation.		

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

SECTION 3. NOTES TO THE ACCOUNTS

35. IMPAIRMENT LOSSES

Impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure are summarised in Note 9 reconciling the movement over the year in the Property, Plant and Equipment balances. No impairment losses other than those relating to revaluation losses were incurred.

36. EXIT PACKAGES

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

Exit package cost band (incl. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
£0 - £20,000 *	2	1			2	1	35,800	17,300
£20,001 - £40,000		1				1		23,100
£40,001 - £60,000 *		2				2		85,300
£60,001 - £80,000	1				1		76,200	
£80,001 - £100,000 *		1				1		99,700
£100,001 - £150,000	3	1			3	1	414,300	114,000
£150,001 - £200,000	3				3		495,700	
TOTAL	9	6			9	6	1,022,000	339,400

The 2010/11 exit packages mainly relate to the Senior Management Review carried out in March 2010. Details of this are in the Explanatory Foreword. A provision of £915,000 was made in the 2010/11 Accounts for the redundancy and strain payment costs from the Senior Management Review taking into account reimbursements of costs due from West Devon Borough Council of £302,000. This is shown in Note 2 Material Items of Income and Expenditure in the Notes to the Accounts. The Senior Management Review produced savings of £300,000 per year for South Hams District Council and the payback period of the exit packages costs was 2.2 years.

*In 2011/12 a contribution of £60,700 was received from West Devon Borough Council towards the above * exit packages. Conversely, South Hams District Council contributed £24,700 to West Devon Borough Council for exit package costs for the 2011/12 period.*

SECTION 3. NOTES TO THE ACCOUNTS

37. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The authority participates in the Local Government Pension Scheme, administered locally by Devon County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liability with investment assets.

In addition, there are arrangements for the award of discretionary post retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

At South Hams District Council, unfunded benefits take the form of pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions. Such benefits are charged to the Council as they are paid. For new retirees CAY pensions are no longer payable. The liabilities that the Council continue to face relate to the impact of previous early retirement decisions.

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

SECTION 3. NOTES TO THE ACCOUNTS

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2011/12	2010/11
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
▪ current service cost	1,764	2,169
▪ past service costs/ (gains)		(7,805)
▪ losses (gains) on curtailments	467	
▪ settlements and curtailments (accrued*)	52*	293*
▪ settlements and curtailments (reversal of 2010/11 accrual)	(293)	-
Financing and Investment Income and Expenditure		
▪ interest cost	4,407	4,902
▪ expected return on scheme assets	(4,198)	(4,075)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	2,199	(4,516)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
▪ actuarial (gains) and losses**	13,233	(16,288)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	13,233	(16,288)
Movement in Reserves Statement		
▪ reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	2,199	(4,516)
Actual amount charged against the General Fund Balance for pensions in the year:		
▪ employer's contributions payable to scheme	1,167	1,175
▪ retirement benefits payable to pensioners	199	194

* Liability arising from a redundancy decision in 2011/12, employee leaving in 2012/13.

SECTION 3. NOTES TO THE ACCOUNTS

***The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £25m. This is since the introduction of FRS17 and adjusted each year.*

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation)	2011/12 £000	2010/11 £000	2009/10 £000
Opening balance at 1 April	80,682	102,650	71,460
Current service cost	1,764	2,169	1,191
Interest cost	4,407	4,902	4,765
Actuarial (gains) and losses	11,109	(19,042)	27,045
Curtailments	467		
Curtailments (reversal of 2010/11 accrual)	(293)		
Curtailments (accrued)	52	293	88
Benefits paid	(3,424)	(2,888)	(2,298)
Past service costs		(7,805)	
Contributions by scheme participants	582	598	598
Unfunded pension payments	(199)	(195)	(199)
Closing balance at 31 March	95,147	80,682	102,650

Reconciliation of fair value of the scheme (plan) assets:	2011/12 £000	2010/11 £000	2009/10 £000
Opening balance at 1 April	65,821	65,616	50,140
Expected rate of return	4,198	4,075	2,659
Actuarial gains and losses	(2,124)	(2,754)	13,395
Employer contributions	1,366	1,369	1,321
Contributions by scheme participants	582	598	598
Benefits paid	(3,623)	(3,083)	(2,497)
Closing balance at 31 March	66,220	65,821	65,616

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2011 for the year to 31 March 2012). The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively at the relevant date. The returns on equities and property are then assumed to be a margin above gilt yields. The actual return on scheme assets in the year was £2,074,000 (2010/11: £4,559,000).

SECTION 3. NOTES TO THE ACCOUNTS

Scheme History

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present value of liabilities	67,750	71,460	102,650	80,389	95,095
Accrual for future strain payments				293	52
Fair value of assets in the Local Government Pension Scheme	63,310	50,140	65,616	65,821	66,220
Surplus/(deficit) in the scheme	(4,440)	(21,320)	(37,034)	(14,861)	(28,927)

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £28.9m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £1.2m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 are £200,000.

Basis for estimating assets and liabilities

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

To assess the value of the Employer's liabilities as at 31 March 2012, the actuaries have rolled forward the value of the Employer's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2011.

SECTION 3. NOTES TO THE ACCOUNTS

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

	31/03/12	31/03/11
Long-term expected rate of return on assets in the scheme:		
Equity Investments	6.3%	7.4%
Gilts	3.3%	4.4%
Other Bonds	4.6%	5.5%
Property	4.3%	5.4%
Cash	3.0%	3.0%
Target Return Portfolio	4.7%	5.0%
Total	5.4%	6.5%
Mortality assumptions:		
Retiring today		
➤ Men	20.5	20.3
➤ Women	24.5	24.4
Retiring in 20 years		
➤ Men	22.5	22.4
➤ Women	26.4	26.3
Financial Assumptions		
RPI increases	3.3%	3.5%
CPI increases	2.5%	2.7%
Rate of increase in salaries	4.7%	5.0%
Rate of increase in pensions	2.5%	2.7%
Rate for discounting scheme liabilities	4.6%	5.5%

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2012 is estimated to be 3%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date.

SECTION 3. NOTES TO THE ACCOUNTS

The estimated asset allocation for South Hams District Council as at 31 March 2012 is as follows:

Employer Asset Share – Bid Value	31/03/12 £000	31/03/12 %	31/03/11 £000	31/03/11 %
Equities	45,692	69%	46,075	70%
Gilts (Government bonds)	11,920	18%	11,190	17%
Other bonds	0	0%	0	0%
Property	3,973	6%	3,291	5%
Cash	3,973	6%	4,607	7%
Target Return Portfolio	662	1%	658	1%
Total	66,220	100%	65,821	100%

Based on the above, the Employer's share of the assets of the Fund is approximately 2%.

History of Experience Gains and Losses

The actuarial gains/losses identified as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities.

Amounts for the current and previous periods	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
Differences between expected level of liabilities and actual experience	46	5,079	146	(350)	(990)
<i>Percentage of liabilities</i>	<i>0.0%</i>	<i>6.3%</i>	<i>0.1%</i>	<i>(0.5%)</i>	<i>(1.5%)</i>
Differences between the expected and actual return on assets	(2,124)	(2,754)	13,395	(16,940)	(4,150)
<i>Percentage of assets</i>	<i>(3.2%)</i>	<i>(4.2%)</i>	<i>20.4%</i>	<i>(33.8%)</i>	<i>(6.6%)</i>

SECTION 3. NOTES TO THE ACCOUNTS

38. CONTINGENT LIABILITIES

- a) The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now Tor Homes) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).
- b) Municipal Mutual Insurance (MMI) was formed as a limited company by guarantee in 1903 and by 1974 some 90% of local authorities were reliant on the company for the provision of the bulk of their insurance needs. Due to dramatic increases in claims, coincidental with a fall in the property market and poor investment environment, along with its inability to raise capital because of its mutual status, MMI's net assets fell below the minimum regulatory solvency requirement and the company went into run-off in September 1992. Although Zurich Municipal (ZM) acquired the right to renew MMI's policies in 1993, it did not assume financial responsibility for the run-off of MMI's historical portfolio. Therefore, a contingent Scheme of Arrangement (SOA) under Section 425 of the Companies Act 1985 became effective on 21 January 1994, which allowed for a clawback from local authorities previously insured with MMI to be introduced, should MMI not have sufficient funds available to pay remaining claims at any time in the future. Most of MMI's insured public sector members elected to participate in the SOA, effectively becoming scheme creditors, which means that they may have to pay back part of all claims for which they have received settlements since 1993 in the event of the SOA being triggered. Currently the "Initial Scheme of Arrangement" stage still exists, which will end if and when a trigger event occurs. This means that during this period MMI continues to handle the claims it receives in a normal manner, and negotiate settlements with third party claimants in full without requesting any contributory funds from the relevant local authorities. If a trigger event occurs the management of MMI would pass responsibility for the administration of the SOA to the Scheme Administrator and in all likelihood the company would be liquidated. Claims are still being reported to MMI relating to policy years pre-1993 (there were 2,127 reported claims outstanding as at 30 June 2011) comprising principally asbestos related and abuse related claims. MMI's actuaries carry out fresh forecasts of ultimate claims losses each year to enable the company to fulfil its accounting and reporting obligations. Detailed claims development statistics are also provided to its regulatory body, the Financial Services Authority (FSA). Each local

SECTION 3. NOTES TO THE ACCOUNTS

authority in the SOA receives an annual statement detailing the potential claw back figure to which they are exposed; this figure is based on the claims outstanding when run-off occurred in 1993.

Should the Scheme of Arrangement be invoked the Council's maximum exposure to loss would be £118,608.

- c) In common with 370 other English district and unitary councils, SHDC may be the subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. No claim has been served upon the Council and the issue is whether the charges were lawfully imposed. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the Government should compensate. The matter is being dealt with through the Local Government Association.
- d) There is a risk of significant costs associated with progressing the proposal for the new community at Sherford. Positive negotiations have taken place over the last 12 months and both South Hams District Council and Plymouth City Council have agreed revised Section 106 heads of terms and granted outline planning permission subject to completion of a legal agreement. At this stage, the level of financial risk appears to have reduced but if a detailed S106 cannot be agreed or a subsequent judicial review is lodged, the scale of contingent liability outlined in the 2010/11 statement of accounts remains a risk i.e. appeal costs could range from £250,000 to £500,000.

SECTION 3. NOTES TO THE ACCOUNTS

39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

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

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

Overall Procedures for Managing Risk

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by the Executive on 27 January 2011 and is available on the Council's website.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Council's customers. An analysis of the Council's investments is provided in Note 12 to the accounts.

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

The full Investment Strategy for 2011/12 was approved by the Executive on 27 January 2011 and is available on the Council's website. The Council's investment priorities are: -

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates annually a provision for bad debts based on the age of its debt. This provision is adequate to deal with the historical experience of default and there is no reason to believe that it needs adjustment for current market conditions at the 31 March 2012. An analysis of the Council's debtors is provided in Note 14 to the accounts.

Liquidity risk

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

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

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 15 to the accounts.

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

Market Risk

Interest rate risk

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

- Investments at variable rates – the interest income credited to the I & E account will rise
- Investments at fixed rates – the fair value of the assets will fall

Changes in interest receivable on variable rate investments are posted to the I & E account and affect the General Fund Balance £ for £.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and

SECTION 3. NOTES TO THE ACCOUNTS

variable interest rate exposure. The Finance team will monitor market and forecast interest rates within the year to adjust exposures appropriately.

If all interest rates had been 1% higher with all other variables held constant the financial effect would be that an additional £250,000 in interest would have been generated.

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

Price risk

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

Foreign exchange risk

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

Refinancing and Maturity Risk

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

40. ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 (SI 2011 No. 817). These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the *Service Reporting Code of Practice for Local Authorities (SeRCOP)*, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

SECTION 3. NOTES TO THE ACCOUNTS

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

The Council operates a de-minimis policy for accruals which is currently £1,000 for revenue expenditure and £5,000 for capital expenditure. Accruals are not made for transactions below these limits.

3. Cash and Cash Equivalents

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

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

Key: T = trade date

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

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

SECTION 3. NOTES TO THE ACCOUNTS

4. Exceptional Items

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

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

7. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post Employment Benefits

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

SECTION 3. NOTES TO THE ACCOUNTS

The Local Government Scheme

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

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

For further information please refer to Note 37

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

- **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **expected return on assets** – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **gains or losses on settlements and curtailments** – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

SECTION 3. NOTES TO THE ACCOUNTS

- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- **contributions paid to the Devon County Council Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

8. Events after the Balance Sheet Date

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

Two types of events can be identified:

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

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

SECTION 3. NOTES TO THE ACCOUNTS

9. Financial Instruments

Financial Liabilities

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

10. Government Grants and Contributions

General

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

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

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

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring-fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

SECTION 3. NOTES TO THE ACCOUNTS

11. Heritage Assets

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

12. Intangible Assets

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

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

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

13. Inventories

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

14. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length.

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

SECTION 3. NOTES TO THE ACCOUNTS

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

15. Jointly Controlled Operations

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

16. Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets (i.e. embedded leases).

The Authority as Lessee

Finance Leases

The Council does not hold any finance leases as a lessee

Operating Leases

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

SECTION 3. NOTES TO THE ACCOUNTS

The Authority as Lessor

Finance Leases

The Council does not hold any finance leases as a lessor

Operating Leases

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

17. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

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

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

Cost	Basis of allocation
Staffing and related overheads	Cost of time spent by staff based on timesheets
Administrative buildings	Area occupied
IT costs	Usage of major systems plus a standard charge per PC/printer

SECTION 3. NOTES TO THE ACCOUNTS

18. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

De minimis policy for capital controls and accounting purposes

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

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

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

Component Accounting

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

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

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

Impairment

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

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

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

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

Depreciation

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

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

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

SECTION 3. NOTES TO THE ACCOUNTS

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

The written-off value of disposals is not a charge against council tax, as the cost of assets is fully provided for under separate arrangements for capital

SECTION 3. NOTES TO THE ACCOUNTS

financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

19. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

SECTION 3. NOTES TO THE ACCOUNTS

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

20. Reserves

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

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

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

22. Section 106 deposits

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

23. Shared Services

Since 1st October 2011, all services operated by West Devon Borough Council and South Hams District Council have been shared at senior management level and middle management level, with the exception of the Finance team at both Councils, which have remained separate.

SECTION 3. NOTES TO THE ACCOUNTS

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

24. VAT

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to amendments to IFRS 7 Financial Instruments: Disclosures (transfer of financial assets) which may need to be adopted fully by the authority in the 2012/13 financial statements i.e. from 1 April 2012.

The authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new / amended standard that has been issued, but is not yet required to be adopted by the Authority, in this case, financial instruments. The new standard will have no effect for 2011/12 as the Authority does not currently have any financial assets which have been transferred but not derecognised from the Balance Sheet requiring evaluation of the relevant risk exposures.

42. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 40, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The assumptions made by the actuary in determining the value of the pension liability are appropriate and reasonable.
- The value of the impairment relating to the investment of funds with the Heritable Bank is calculated on an appropriate and realistic basis.
- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads.

SECTION 4. COLLECTION FUND

This statement shows the transactions of the Council as the charging authority in relation to the Council Tax, and how these have been distributed between the Council's General Fund and other precepting authorities. It also summarises the transactions relating to the collection of business rates on behalf of the Government, which are held in a national pool. The total amount held in that pool is re-distributed to local authorities on the basis of population.

2010/2011 £000s	Notes	2011/2012 £000s
Income		
(52,195) Council Tax	1	(52,554)
(6,004) Council Tax Benefits		(5,932)
(29,775) Business Rates	2	(29,338)
5,995 Less: Transitional Relief / (Surcharge)		4,214
(81,979)		(83,610)
Expenditure		
Precepts and Demands		
42,419 <i>Devon County Council</i>		42,534
5,950 <i>Devon and Cornwall Police</i>		5,967
2,727 <i>Devon and Somerset Fire Authority</i>		2,734
6,586 <i>South Hams District Council</i>		6,662
Business Rates		
23,317 <i>Payment to national pool</i>		24,835
201 <i>Costs of collection allowance</i>		204
Distribution of previous year's estimated surplus		
192 <i>Devon County Council</i>		515
26 <i>Devon and Cornwall Police</i>		72
12 <i>Devon and Somerset Fire Authority</i>		33
30 <i>South Hams District Council</i>		80
Bad and doubtful debts		
Write Offs		
117 <i>Council Tax</i>		126
307 <i>Business Rates</i>		75
Provisions		
(8) <i>Council Tax</i>		54
(45) <i>Business Rates</i>		11
81,831		83,902
(148)	MOVEMENT ON FUND BALANCE	292

SECTION 4. COLLECTION FUND

1. Council tax and council tax base

In 2011/12, the Council's average Band D Council Tax was £1,519.60 (£1,518.06 in 2010/11). The charge for each band is a ratio of band D. The 2011/12 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	844.22
A	6/9	1,013.07
B	7/9	1,181.91
C	8/9	1,350.76
D	1	1,519.60
E	11/9	1,857.29
F	13/9	2,194.98
G	15/9	2,532.67
H	18/9	3,039.20

These charges are before any appropriate discounts or benefits. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2011/12 was 38,100.80 as calculated below (37,997.17 in 2010/11).

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	0	7.00	7.00	5/9	3.89
A	4,851.00	(934.35)	3,916.65	6/9	2,611.10
B	8,449.00	(1,052.55)	7,396.45	7/9	5,752.79
C	8,316.00	(908.30)	7,407.70	8/9	6,584.62
D	7,813.00	(579.15)	7,233.85	1	7,233.85
E	6,338.00	(564.75)	5,773.25	11/9	7,056.19
F	3,495.00	(243.40)	3,251.60	13/9	4,696.76
G	2,889.00	(265.25)	2,623.75	15/9	4,372.92
H	283.00	(33.60)	249.40	18/9	498.80
Total	42,434.00	(4,574.35)	37,859.65		38,810.92
					Less allowance for non collection (776.22)
					Plus adjustment for armed forces dwellings 66.10
Tax base					38,100.80

SECTION 4. COLLECTION FUND

2. Rateable value

The total non-domestic rateable value at 31 March 2012 was £82,155,154. This compares to £82,429,038 at 31 March 2011. The standard non-domestic rate multiplier was 43.3p in 2011/12 (2010/11: 41.4p). Without reliefs this would generate a total income of £35,573,181.68 (2010/11 £34,125,621.73). These figures are a snapshot only and differ from the value of NNDR bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

3. Collection fund balance

2010/2011 £000s		2011/2012 £000s
(989)	Fund balance at 1 April	(1,137)
(148)	(Surplus) / Deficit for year	292
(1,137)	Fund balance as at 31 March	(845)

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

2010/2011 £000s	Preceptor	2011/2012 £000s
(836)	Devon County Council	(618)
(117)	Devon and Cornwall Police	(88)
(54)	Devon and Somerset Fire Authority	(40)
(1,007)	Total surplus due to Preceptors	(746)
(130)	South Hams District Council	(99)
(1,137)	Fund balance as at 31 March – (surplus)/deficit	(845)

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

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance and Audit
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

Responsibilities of the Head of Finance and Audit

The Head of Finance and Audit is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Head of Finance and Audit has:

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

The Head of Finance and Audit has also:

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

The Statement of Accounts present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2012.

.....

**Lisa Buckle BSc, ACA
– Head of Finance and Audit**

27 September 2012

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

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee as its meeting held on 27 September 2012.

Signed on behalf of South Hams District Council

.....

Councillor JT Pennington

Chairman of the Audit Committee
27 September 2012

SECTION 6. AUDITORS' REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH HAMS DISTRICT COUNCIL

Opinion on the Authority's financial statements

I have audited the financial statements of South Hams District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of South Hams District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and Audit and auditor

As explained more fully in the Statement of the Head of Finance and Audit's Responsibilities, the Head of Finance and Audit is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Audit; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of South Hams District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

SECTION 6. AUDITORS' REPORT

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

SECTION 6. AUDITORS' REPORT

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, South Hams District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of South Hams District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alun Williams

District Auditor

Audit Commission

3-4 Blenheim Court

Lustleigh Close

Matford Business Park

Exeter

EX2 8PW

20 September 2012

SECTION 7. GLOSSARY OF TERMS

ACCRUALS	A sum included in the account to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts have been prepared.
ACTUARIAL GAINS & LOSSES	These are changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed.
BALANCES	The surplus or deficit on any account at the end of the year. Amounts in excess of that required for day to day working may be used to reduce the demand on the Collection Fund.
CAPITAL EXPENDITURE	Expenditure on the acquisition of a asset or expenditure which adds to and not merely maintains the value of an existing asset.
CAPITAL RECEIPTS	Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loan.
CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)	The governing body responsible for issuing the statement of recommended practice to prepare the accounts.
COLLECTION FUND	A separate fund which must be maintained by a district for the proper administration of Council Tax and Non Domestic Rates.
CURRENT SERVICE COST	Amount chargeable to Services based on the Actuary's assessment of pension liabilities arising and chargeable to the financial year.
CURTAILMENTS	This is the amount the Actuary estimates as the cost to the authority of events that reduce future contributions to the scheme, such as granting early retirement.
DEFINED BENEFIT SCHEME	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and

SECTION 7. GLOSSARY OF TERMS

the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEMAND	The charging authorities own Demand is, in effect, its precept on the fund.
FEES & CHARGES	In addition to the income from charge payers and the Governments, Local Authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
FINANCIAL INSTRUMENTS	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
GOVERNMENT GRANTS	Payments by Central Government towards the cost of Local Authority services, including both Revenue and Capital.
IMPAIRMENT ALLOWANCE (“BAD DEBT PROVISION”)	Provisions against income to prudently allow for non collectable amounts.
INTEREST COST	For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) & THE CODE OF PRACTICE (CODE)	Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
LIBID	Acronym for the London Inter-bank Bid Rate, being the interest rate at which a market maker or underwriter will offer to buy bonds and securities.
PAST SERVICE COST	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.

SECTION 7. GLOSSARY OF TERMS

PRECEPT	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
PROJECTED UNIT METHOD	<p>An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:</p> <ul style="list-style-type: none">a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, andb) the accrued benefits for members in service on the valuation date. <p>The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</p>
RATEABLE VALUE	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.
SETTLEMENTS	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability
STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement
SUNDRY CREDITORS	Amounts owed by the Council at 31 March.
SUNDRY DEBTORS	Amounts owed to the Council at 31 March.

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NAME OF COMMITTEE	Audit Committee
DATE	27th September 2012
REPORT TITLE	UPDATE of the ANNUAL GOVERNANCE STATEMENT 2011/12
Report of	Head of Finance and Audit (S.151 Officer) Monitoring Officer Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

Members were provided with information at the July 2012 Audit Committee meeting to allow them to independently examine the draft Annual Governance Statement for 2011/12 and the supporting process and assurance streams; and recommend approval of the Annual Governance Statement (AGS) to the following Council (A.09/12).

The AGS provides public confirmation that this Council has a sound framework of governance and system of internal control, which facilitates the effective exercise of the Council's functions and includes arrangements for the management of risk.

The Accounts and Audit (Amendment) (England) Regulations 2006 and 2011 require the Council to publish the Annual Governance Statement by the end of September with the audited Statement of Accounts. However, the AGS must be reviewed and updated to take account of any significant changes in the governance or control frameworks between the date of production and the publication date. No significant changes were identified and only minor amendments made to the AGS.

Financial implications:

Within existing budgets.

RECOMMENDATION:

It is RECOMMENDED that Members consider and note the minor updates to the Annual Governance Statement (AGS) 2011/12 approved by the Council.

Officer contact:

Allan Goodman, Chief Internal Auditor: 01803 861375

allan.goodman@southhams.gov.uk

1 BACKGROUND

The 2011/12 Annual Governance Statement (AGS)

- 1.1 The Accounts and Audit Regulations 2003 states that 'The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices' with any relevant financial statements the body is required to publish.
- 1.2 In 2006, the Accounts and Audit Regulations were amended to replace the Statement of Internal Control with the 'Annual Governance Statement'.
- 1.3 The 2011 Accounts and Audit Regulations removed the requirement to publish the AGS within the Council's Statement of Accounts. The Regulations suggest that the AGS should 'accompany' the accounting statements rather than being included within them.
- 1.4 The extract from the CIPFA Finance Advisory Network guidance (Appendix A) sets out a suggested framework for the System of Internal Control part of the AGS and the assurance gathering process.
- 1.5 This also formed part of the report to the July 2012 Audit Committee meeting which allowed members to independently examine the draft Annual Governance Statement for 2011/12 and the supporting process and assurance streams; and recommend approval to the following Council (A.09/12).
- 1.6 However, the AGS must be reviewed and updated to take account of any significant changes in the governance or control frameworks between the date of production and the publication date.
- 1.7 The following paragraph set out the required amendments.

2. UPDATING THE 2012 ANNUAL GOVERNANCE STATEMENT

- 2.1 The assurance streams for the draft Annual Governance Statement presented to the July 2012 Audit Committee were revisited to ensure that, up to the date of publication, the AGS included any relevant issues coming to light since its production.
- 2.2 No new significant issues were identified for inclusion in the AGS.
- 2.3 The draft Statement also included an action plan to address any significant governance and internal control issues, which were identified through the assurance process.
- 2.4 Minor amendments have been made to this as per the following table:

Draft AGS Issue	Update
Partnership Management	Links with Risk Management. Progress is being made but a revised date of 31 st December 2012 is required for completion.
Shared Services Operating Agreements	Revised date for completion of 31 st March 2013 due to the interim arrangements for the Monitoring Officer, pending the results of the review of the legal service.
Risk Management Framework	Progress is being made but a revised date of 31 st December 2012 is required for completion.
Dartmouth Embankment	An oral update on the progress being made on this issue will be provided to members at the meeting.

2.5 The updated AGS for 2011/12 appears at Appendix B to this report.

3. LEGAL IMPLICATIONS

3.1 The Accounts and Audit (Amendment) (England) Regulations 2003, 2006 and 2011 (Statutory Instrument No. 817) require the Council to publish an Annual Governance Statement.

4. FINANCIAL IMPLICATIONS

4.1 Within existing budgets.

5. RISK MANAGEMENT

5.1 The risk management implications follow these considerations:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Section 111, Local Government Act 1972; and Accounts and Audit Regulations 2003, 2006 and 2011 (Statutory Instrument No. 817).
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.

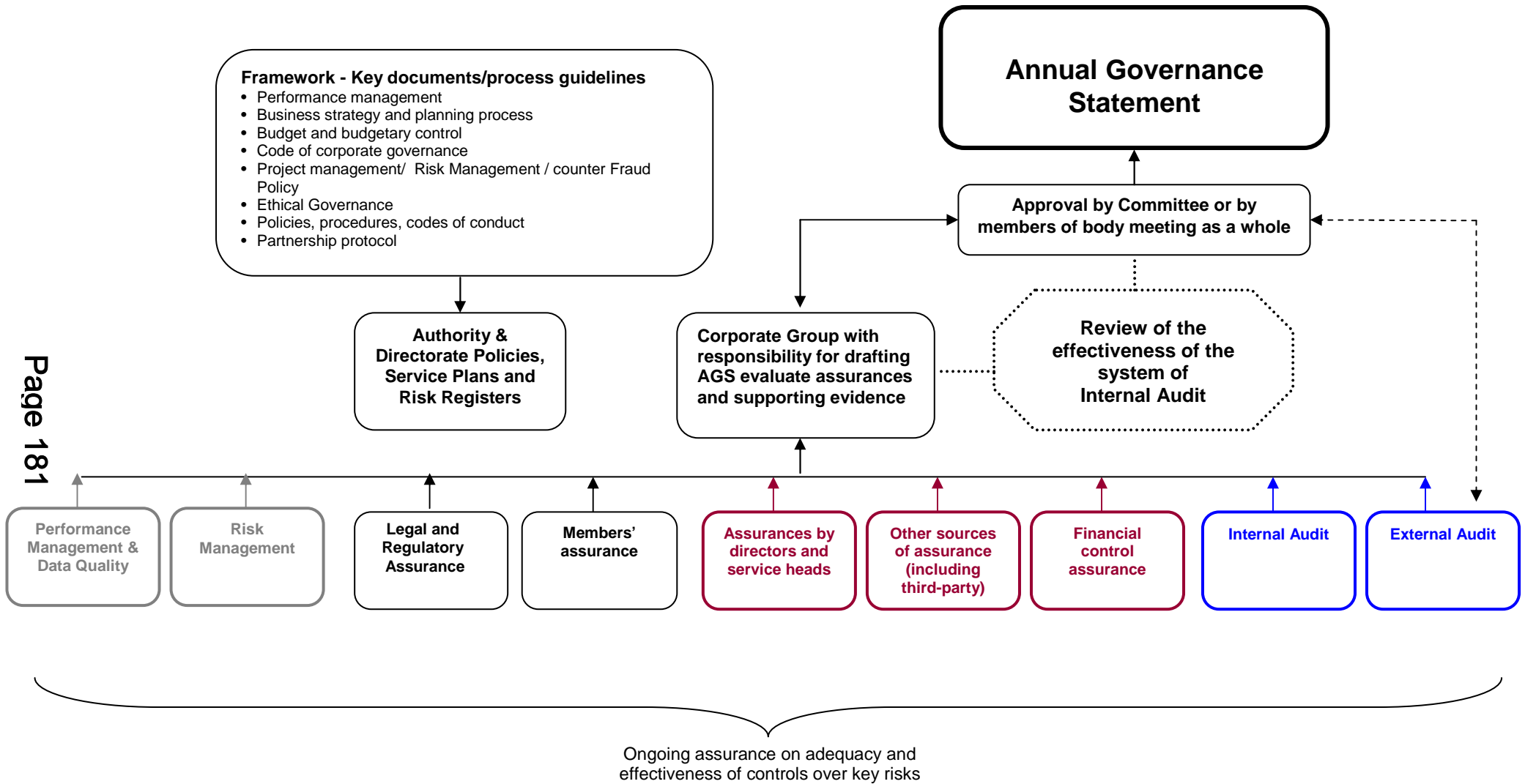
Background papers:	Code of Corporate Governance for South Hams District Council 2008 CIPFA/SOLACE (2007) Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities Accounts and Audit (Amendment) (England) Regulations 2006 Independent Commission on Good Governance in Public Services (2005): The Good Governance for Public Services CIPFA/SOLACE document: Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)
Appendices attached:	Appendix A – Framework for the System of Internal Control and Annual Governance Statement Appendix B – Updated Annual Governance Statement for 2011/12

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1.	Opportunity	<p>The Council is able demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together:</p> <ul style="list-style-type: none"> Facilitate effective and efficient operation by enabling an appropriate response to significant business, operational, financial, compliance and other risks to achieving the Council's objectives (including the safeguarding of assets from inappropriate use, loss or fraud, and ensuring that liabilities are identified and managed); Help ensure the quality of internal and external reporting. Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business. 	-	-	-	-	Monitoring compliance of the Code of Corporate Governance and the System of Internal Control will feed the Annual Governance Statement (AGS) process and provide assurance to the community that a good governance framework is in place.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
2	System of Internal Control - Formal Identification of objectives, risks and related controls.	Senior managers may be unable to demonstrate that they have set their service objectives linked to those of the Council, identified the risks to achieving these service objectives and assessed the controls in place to mitigate the risks.	2	2	4	↔	Service planning guidance reminds managers that the service plan process is the basis for the System of Internal Control supported by a formal assessment of controls, with evidence of their satisfactory operation.	Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor
3	Assurance streams for the Annual Governance Statement (AGS)	Risk that the Council does not have the system in place to produce a meaningful AGS to be included in the accounts; or that the process does not satisfy the requirements under the Accounts and Audit Regulations 2003/2006/2011.	3	2	6	↔	AGS completed through the annual reviews of the Code of Corporate Governance and System of Internal Control, in line with all the relevant national guidance, and subject to review by the external auditor.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor
3	Annual Governance Statement (AGS)	Risk that if the Corporate Governance process is not formalised and brought together, some aspects may fall by the wayside. The Council may not approve the AGS or the Leader and Chief Executive be able to sign because issues are identified, resulting in adverse comment. The Council may not act within the 'Accounts and Audit Regulations', and be publicly criticised by the external auditor as a result.	3	2	6	↔	The Council will produce an Annual Governance Statement, in line with the latest guidance, describing the governance framework and reflecting issues identified from a number of assurance streams including the review of the Code of Corporate Governance. The Annual Governance Statement will include an action plan to address any issues identified by the compliance monitoring of Corporate Governance, and will be reviewed by the Council's external auditors and published with the Council's accounts.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor

ANNUAL GOVERNANCE STATEMENT FRAMEWORK



South Hams District Council

Annual Governance Statement

1. Scope of Responsibility

South Hams District Council is responsible for ensuring that its 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

South Hams District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute for Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) Framework *Delivering Good Governance in Local Government*. A copy of the Council's code is available on our website www.southhams.gov.uk or can be obtained from the Chief Internal Auditor, South Hams District Council, Follaton House, Plymouth Road, Totnes TQ9 5NE.

This statement explains how South Hams District Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2011 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of South Hams District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at South Hams District Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The key elements of the systems and processes that comprise the Council's governance arrangements follow under the headings (*italics*) suggested by the CIPFA/SOLACE guidance:

1. Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users: and
2. Reviewing the vision and its implications for the Council's governance arrangements:

The Strategic direction is set by Members at formal meetings. The December 2010 meeting of the Council approved four new high level priorities: Community Life, Economy, Environment and Homes.

The Council's vision and ambition was recommended in the report to the January 2011 Executive, 'Shared Services and Beyond', as well as the development of the 'Transformation Programme'. The Leader presented a report to the March 2011 meeting of the Council recommending that the Shared Services and Beyond document be formally adopted and 'South Hams Voice' be developed as the means by which the Council increases engages with the voluntary/community sector, business sector and the community at large.

On 14th July 2011, the Executive approved the Connect Strategy. This sets out the priorities for the period 2011-2015 and the four detailed Delivery Plans (Community Life, Economy, Environment and Homes) for that period for each of the new priorities.

The Connect Strategy is produced by the South Hams and West Devon Connect Partnership, replacing the Local Strategic Partnerships, and brings together key stakeholders from the community, voluntary, business and public sectors.

The Strategic direction is communicated to the citizens and service users through a booklet sent annually with all Council Tax and Business Rates bills, reports sent to all households in the Council's joint magazine with Devon County Council, as well as on the Council's web-site.

The booklet includes a statement from the Leader of the Council, and sets out the Council's achievements and opportunities.

The implication for the governance arrangements is considered by an annual compliance review of the Code of Corporate Governance with the results reported to a joint meeting of the Audit and Standards Committees (5th April 2012). The report and minutes are available on the Council's web-site and any issues identified included in this Annual Governance Statement.

3. Measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources:

The Connect Strategy referred to above links to plans of partner organisations and the Partnership's Governance arrangements includes a Delivery Group comprising of the key stakeholders to monitor plans and report to a Board, Elected Member Board etc.

It has four detailed Delivery Plans (Community Life, Economy, Environment and Homes). Wherever possible the delivery plans seek to maximise opportunities from shared services to deliver efficiencies, be more cost-effective and improve outcomes for local people. The targets set within these plans will be achievable and realistic delivering outcomes for local communities. Progress against targets will be reported regularly to the Connect Partnership Board and Elected Member Board.

This Data Quality Assurance Strategy outlines the approach that is needed to maintain the highest possible standards, controls and validation throughout all the data processes. It clearly indicates the role each individual has to play in the production and analysis of data and recognises the need that data is accurate, reliable and timely in informing service provision and in supporting good decision-making.

The Council uses a suite of performance indicators that includes measurement of the quality of service. A 'Balanced Scorecard' system of regular reporting of the key indicators to the Senior Management Team (SMT), and Members (Corporate Performance and Resources Scrutiny Panel) is in place.

Performance measures are being reviewed for 2012/13 with new or revised indicators linked to drivers, goals and the service/Council priorities.

Each Head of Service draws up a service plan (now known as a Blue Print) setting out, for the coming year, the obligations and objectives of their area of responsibility linked to the Council's priorities. The service plans also link to the budget setting process, risk management framework and the system of internal control.

The Council publishes a Medium Term Resource Strategy each year, which covers a four year period. That for the period 2012/13–2015/16 was approved by the Executive in July 2011 and has regard to the Priorities, business planning – pressures and savings, government grant settlements, council tax, and reserves. It also reflects the revenue implications of the capital programme.

Inspectorate reports are received and acted upon. The external auditors' reviews and reports on the Council's Statement of Accounts, governance arrangements, and value for money are summarised in an Annual Audit Letter to members, which is presented with other reports to the Audit Committee.

4. Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication:

Parts 2 and 3 of the Council's Constitution, which is available on the Council's web-site and Intranet, defines and documents the roles and responsibilities of the executive, non executive, scrutiny and officer functions, and contains clear delegation arrangements.

Part 5 of the Constitution includes a Protocol on Councillor/Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted members of Council bodies in their dealings with officers where appropriate. It seeks to reflect the respective codes of conduct.

Protocols for effective communication are in place including a Corporate Communications Policy.

5. Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;

Part 5 of the Constitution sets out the Code of Conduct for elected members (2007).

There is also a Code of Practice for Members considering Planning matters. Its aim is to ensure that in the planning process there are no grounds for suggesting that a decision has been biased, partial or not well founded. It links to the Code of Conduct.

An Officer's Code of Conduct also appears in Part 5 of the Constitution and the Staff Pages of the Council's Intranet (internal website).

The Codes require interests, and, gifts and hospitality for both members and officers to be reported to the Monitoring Officer who maintains a Register. Training on the Code of Conduct is provided to members, and officers also receive training on their Code and the wider ethical framework as part of induction and other internal training.

The Standards Committee's remit includes monitoring the conduct of Members and investigating complaints in respect of individual Members.

6. Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks:

Part 3 of the Council's Constitution contains a Scheme of Delegation to Officers, which together with the Contract Procedure Rules & Finance Procedure Rules, supporting procedure notes and manuals form a key part of the Council's control environment. These are reviewed annually and updated as required;

The formal management of risk is in place and subject to annual internal audit, external inspection through the Audit Commission, and reporting to the Audit Committee quarterly and annually to the Council. The risk management process includes an approved Strategy, a Risk Management Group, risk registers, systems for identifying emerging risks, consideration of risk and opportunities in reports to members and project management.

A new Corporate Risk Management Policy was approved in April 2012. The review of the Code of Corporate Governance highlighted the need for the risk management framework supporting the Policy to be updated.

7. Ensuring that the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer.

For 2011/12 the Council appointed the Head of Finance and Audit as the designated officer responsible for the proper administration of the Council's financial affairs as required under Section 151 of the Local Government Act 1972 (the 'S.151 Officer'). This appointment is reflected in the Article 12 of the Constitution.

A self assessment of the Role of the Chief Financial Officer (CFO) confirmed that the Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government'.

The assessment highlighted the potential for a conflict of interest as the CFO (also known as the S.151 Officer) is also the S.151 Officer at West Devon Borough Council. This risk is mitigated by formally appointed Deputy S.151 Officers who are dedicated to each Council (not shared).

8. Undertaking the core functions of an Audit Committee, as identified in CIPFA's document 'Audit Committees – Practical Guidance for Local Authorities':

Article 10 of the Constitution sets out the functions of the Audit Committee, which is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance and to oversee the financial reporting process and the effectiveness of the Treasury Management function

The Terms of Reference are based on the CIPFA document: Audit Committees – Practical Guidance for Local Authorities;

Part 4 of the Constitution includes 'Rules for Other Bodies of the Council', sets out the membership requirements for the Audit Committee.

9. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful:

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Article 1 confirms that the local authority will act within the law and the Provisions of the Constitution.

Some of the services provided are statutory, whilst others are a matter for the Council to decide upon. There is a process to ensure that any new legislation is identified and acted upon, which includes letters to the Chief Executive from the relevant government departments, and Monitoring Officer reviews of their web-sites. Part 3 of the Council's Constitution includes both the Responsibility for Functions (Local Choice and Council) and the Scheme of Delegation to Officers.

Article 12 of the Constitution sets out the statutory functions of the 'Monitoring Officer', which includes ensuring lawfulness and fairness in decision making. These responsibilities are reflected in the related job description and specification. The Scheme of Delegation to Officers reflects statutory provisions. The Monitoring Officer reviews the reports to Members for legality.

There is the potential for a conflict of interest as the Council's Monitoring Officer is also the Monitoring Officer at West Devon Borough Council. This risk is mitigated by formally appointed Deputy Monitoring Officers who are dedicated to each Council (not shared).

A system of consultation of other professionals in advance of presentation of reports to Members is in place, particularly where a recommendation requires the input of more than one profession e.g. legal advice, financial advice etc.

Adherence to regulations, policies and procedures are also reviewed and monitored on behalf of the S.151 Officer by Internal Audit and the Audit Committee.

The Council has an active internal audit function which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Internal audit is responsible for monitoring the quality and effectiveness of the Council's control framework which includes ensuring that activities are lawful and internal policies and procedures are complied with. A risk based audit plan, approved annually by the Audit Committee ensures there is adequate audit coverage for this purpose.

10. Whistle-blowing and receiving and investigating complaints from the public:

The Council's whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council's Intranet (including Frequently Asked Questions) and is also publicised internally on an occasional basis to maintain its profile.

The Council's website also includes a Complaints and Suggestions page which outlines the procedure for making a complaint, a complaint about a Member, suggestions, and how to contact the Local Government Ombudsman.

A procedure for dealing with complaints is included within the Complaints Policy, which was updated in December 2011 linked to the introduction of new internal complaint management software.

In addition the web-site publishes related documents:

- An Anti Fraud, Corruption and Bribery Policy and Strategy;
- An Anti Money Laundering Policy; ;
- Links to the Local Government Ombudsman;
- A Local Code of Conduct – Complaints Procedure enables people to complain about members who may have breached the Code.

11. Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training:

Members

Article 2 of the Constitution states that "Councillors will develop and maintain a working knowledge of the authority's services and policies and take advantage of appropriate training and development opportunities to enable them to fulfil their role".

Immediately after any elections, a comprehensive Induction Programme is delivered for newly elected Members. The Induction covers the role of the Councillor, chairing skills, governance arrangements and processes etc.

A politically balanced Member Development Steering Group has been formed and the group's terms of reference were agreed. A Member Development Strategy was approved by the Council and has contributed into the 2011 induction programme.

At the February 2012 Council meeting, as part of the report of the Political Structures Working Group, recommendations were accepted to amend procedures to:

- (i) All Members will be expected to attend planning training refresher sessions as and when they are provided;

- (ii) Newly elected Members will have to attend appropriate induction Planning Training before they can take part in the planning decision-making process;
- (iii) Repeat sessions will be held in conjunction with West Devon Borough Council to provide additional opportunities for Members to meet the requirement to attend the induction training;
- (iv) If they so wish, re-elected Members will be welcome to attend the induction sessions.

Other ad hoc training is also provided as required, Members and officers receive a weekly Members Bulletin which provides an update on current issues, background information on training events and a range of other topics.

Senior Officers

The responsibilities of each management post are reflected in the related job descriptions and specifications. A programme of training is provided to these officers that is linked to the corporate employee appraisal and competency scheme, which includes identification of one off training requirements as well ongoing professional training.

12. Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:

Article 3 of the Constitution sets out what citizens can expect from their Council and what rights they have. This includes the right to attend meetings of the Council, the Executive and other bodies of the Council except where confidential or exempt information is likely to be disclosed.

Part 4 of the Constitution includes the Council's 'Access to Information Procedure Rules' which requires the Council to provide the public with access to Agenda and Reports. Meetings of Member bodies are scheduled using a calendar of meetings, and recorded through a system of Agendas and Minutes. It contains the Rules of Procedure for all formal meetings and Forward Plans detail issues to be considered at future meetings. It is also available on the Council's web-site

In addition, the 360 Assessment has been developed and rolled out to all relevant staff. An assessment must be completed for all new/changed policies, strategies and relevant projects including new service delivery. The assessment covers Equality, Duty to Involve, Human Rights, Data Protection, Crime and Disorder, Child Protection, Biodiversity and Sustainability.

Connect Strategy

The Connect Strategy and related Delivery Plans are produced by the South Hams and West Devon Connect Partnership brings together key stakeholders from the community, voluntary, business and public sectors. Annual stakeholder events are held for each Council Priority.

The Council is developing the 'Voice': Business Voice, Town and Parish Voice, and Voluntary Voice, consulting and engaging covering issues that are important to the particular groups.

Local Development Framework

The 2004 Planning and Compulsory Purchase Act requires local planning authorities to prepare a Statement of Community Involvement (SCI). This document sets out how and when

the Council will involve the community in preparing development plans and processing planning applications. In 2006, the Council adopted its SCI.

However, a recent update makes it clear how the Council will engage with the community, in line with the latest planning legislation, for plan making and planning applications. In October 2011 South Hams and West Devon Councils agreed to publish a draft SCI for formal consultation. The comments received during the 6 week consultation have informed amendments to the final version of the SCI, which was presented to the March 2012 Executive to recommend adoption by the Council.

Other Arrangements

In addition there are numerous other arrangements through which the Council engages with local people and other stakeholders, including input to the budget planning process, surveys, various fora, town and parish cluster meetings, South Hams Connect, the magazine etc.

A more comprehensive, but not exclusive, list was included in the compliance review of the Code of Corporate Governance presented to the Joint Audit and Standards Committees meeting (5th April 2012). The report and minutes are available on the Council's web-site.

13. Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements:

Article 11 of the Constitution allows members and officers to enter into joint arrangements with other bodies in order to promote the economic, social or environmental well-being of the Council's area.

The Executive approved the adoption of a Partnership Policy and Guidance document, which contains Appendices to guide officers in considering the purpose of joining a partnership, risk management, governance arrangements, information sharing, monitoring and scrutiny.

It also includes the requirement for an annual report to Members for significant partnerships covering an appraisal of the outputs/achievements/outcomes, a review of the aims and objectives and an evaluation of whether they align with the Council's objectives and priorities, cross-cutting themes and commitments and an appraisal of the financial commitment/staff input and whether the partnership continues to provide value for money for the Council. The partnership risk register is also be reviewed annually by Members.

4. Review of the Effectiveness of the Governance Framework

South Hams District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The effectiveness of the governance framework is considered by an annual compliance review of the Council's Code of Corporate Governance with the results reported to a joint meeting of the Audit and Standards Committees (5th April 2012).

This and the review of effectiveness of the system of internal control is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and

also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework including the system of internal control for 2011/12 is as follows:

Responsibility	Responsible Party
<ul style="list-style-type: none"> • Oversee the effective management of risk by officers of the Council. • Maintain a system of internal control. • Review system of internal control annually. • Evaluate assurance and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion. This can be delegated to an appropriate member body to recommend approval, although approval remains with the Council. • Approve the Annual Governance Statement. 	<p style="text-align: center;">‘The Relevant Body’ - South Hams District Council</p>
<ul style="list-style-type: none"> • Propose the budget and policy framework to the Council, including the Code of Corporate Governance, Risk Management Strategy etc. 	<p style="text-align: center;">The Executive</p>
<ul style="list-style-type: none"> • Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and particular service areas. 	<p style="text-align: center;">Scrutiny</p>
<ul style="list-style-type: none"> • Promote and maintain effective processes for governance issues including maintaining high standards of conduct by the Councillors and Co-opted members of the authority, • Receipt of an annual review of the Council’s Code of Corporate Governance and approval of any action plan arising from the review. 	<p style="text-align: center;">Standards Committee</p>
<ul style="list-style-type: none"> • Monitor the effective development and operation of risk management and corporate governance in the Council. • Consider the Council’s arrangements for corporate governance and to ensure compliance with best practice. • Consider internal audit’s annual report and opinion, and summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council’s corporate governance arrangements; • Carry out an annual self assessment of the effectiveness of the Committee; • Oversee the production of the Council’s Annual Governance Statement and recommend its adoption to the Council. 	<p style="text-align: center;">Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> • Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks. • Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. • Regularly report on the operation of internal controls to elected members through the management team. 	<p style="text-align: center;">Heads of Service</p>

Responsibility (Continued)	Responsible Party
<ul style="list-style-type: none"> • These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. • With the Chief Internal Auditor complete a compliance review of the Code of Corporate Governance and System of Internal Control and produce the Annual Governance Statement. 	S.151 and Monitoring Officers
<ul style="list-style-type: none"> • With the S.151 and Monitoring Officers complete a compliance review of the Code of Corporate Governance and System of Internal Control. • Review the effectiveness of the system of internal audit annually and report results to the Audit Committee. • Subject to complying with the Code of Practice for Internal Audit in Local Government, provide independent and objective assurance across the whole range of the Council's activities. • The annual internal audit report to the Council (Audit Committee) to include an opinion on the overall adequacy and effectiveness of the internal control environment, providing details of any weaknesses that qualify this opinion and issues relevant to the preparation of the Annual Governance Statement. 	Chief Internal Auditor
<ul style="list-style-type: none"> • Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities. 	Risk Management Group External Auditor Other Review Agencies/Inspectorates

5. Significant Governance Issues

Overall the Council's governance arrangements are satisfactory for 2011/12. However, the following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

From the Compliance Review of the Code of Corporate Governance (Joint Meeting of Audit and Standards Committees 5th April 2012) issues for:

Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Partnership Management</p> <p>The Council's Partnership Policy and Guidance and reporting requirements would benefit from a review and update as a shared approach with West Devon Borough Council, following the changes in the Risk Management Framework.</p>	<p>The Council's Risk and Health & Safety Advisor, in association with a Director, should review the Council's Partnership Management Framework and ensure that the related Policy and Guidance is updated as a shared document with West Devon Borough Council.</p>	<p>Risk and Health & Safety Advisor Director 31st December 2012</p>

Principle 2 (continued): Members and officers working together to achieve a common purpose with clearly defined functions and roles:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Shared Services – Operating Agreements</p> <p>The Council has entered into shared working arrangements with West Devon Borough and Teignbridge District Councils under which some officers' services are shared. These officers have Shared Service Operating Agreements by means of which their services are made available to the partner authorities as well as their employer. It is likely that some Operating Agreements will no longer be valid following the current senior management review.</p>	<p>Fresh Operating Agreements will be concluded with the new Heads of Service and Middle Managers appointed under the senior management and middle manager review after the revision of the overall agreement between the Councils has been completed. (Part of the Financial Controls and Governance Arrangements for Shared Services project within the Council's 2015 Transformation Programme.)</p>	<p>Monitoring Officer 31st March 2013</p>
<p>Shared Services – Financial Controls and Governance Arrangements</p> <p>The Financial Controls and Governance Arrangements for Shared Services are being reviewed as a project of the 2015 Transformation Programme.</p> <p>The project is being managed by the S.151 Officer, Monitoring Officer and Chief internal Auditor and tasks include:</p> <p>a) To consolidate the existing elements of the framework for the Governance of the Shared Services arrangements (both financial and legal):</p> <p>b) Recharging the salaries of Shared Service officers</p> <p>Extensive detailed work has been carried out by a small group of officers on the recharging of salaries for the 2011/12 financial year for shared officers, following the Senior Management Review (effective from 1st April 2011) and the Middle Manager Review (effective from 1st October 2011). Officers have produced a methodology for recharging the salary costs of shared costs of shared officers using an appropriate ratio e.g. call volumes, property numbers, caseloads etc. and as a last resort time recording. The work carried out includes establishing from the Heads of Service the relevant recharge requirements for every member of staff, which will feed into a review of the method used for 2011/12 against other options.</p>	<p>The S.151 Officer, Monitoring Officer and Chief Internal Auditor, as the Project Managers for the Financial Controls and Governance Arrangements for Shared Services project of the 2015 Transformation Programme, should ensure that key tasks are completed in line with the formal project plan reported and monitored by the Shared Services Joint Steering Group .</p>	<p>S.151 Officer Monitoring Officer Chief Internal Auditor</p> <p>Timescales in Line with those reported to the Shared Services Joint Steering Group</p>

Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Risk Management Framework</p> <p>The Council's Risk Management Strategy is in the course of being updated and aligned as a single document with West Devon Borough Council, following the presentation of a new Joint Risk Management Policy to the April 2012 Audit Committees.</p> <p>Other improvements to the Risk Management Framework are being developed but these have yet to be finalised against the revised Policy.</p>	<p>The Council's Risk and Health & Safety Advisor, in association with a Director, should review the Council's Risk Management Framework and ensure that it meets the requirements of a revised Policy and good practice.</p>	<p>Risk and Health & Safety Advisor Director 31st December 2012</p>

From the System of Internal Control:

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Dartmouth Embankment</p> <p>A previous formal management agreement between the Council and Dart Harbour Navigation Authority (DHNA) for the latter to manage the Embankment was terminated by the Council in 2003 in exchange for retaining all harbour dues.</p> <p>This was as a result of the increasing costs of maintaining the asset and the long term need for monies to be reserved to replace the coast protection that the Embankment provides when it comes to the end of its useful life.</p> <p>Further negotiations have taken place with DHNA since, with some disagreement over the interpretation of Section 54 and related parts of the Dart Harbour Navigation Act 1975. The legislation says that 75% of the net harbour dues should be paid to the Council.</p> <p>This would provide a reserve for repairs etc. if accepted by DHNA. Speciality legal advice may be required to clarify the position of the Council and the DHNA if agreement cannot be reached.</p> <p>Dialogue with the current DHNA Harbour Master has commenced.</p>	<p>The Head of Assets is to:</p> <ul style="list-style-type: none"> • Continue dialogue with the Dart Harbour Master with a view to reaching agreement for some annual contribution to a sinking fund for maintaining the Embankment, and clarifying the management responsibilities for the Embankment; • Discuss with the Council's Solicitor the need to obtain specialist legal advice to clarify the legislation; and • Draw up a new formal agreement if satisfactory solutions can be found. 	<p>Head of Assets 31st March 2013</p>

From the System of Internal Control (Continued):

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Pay and Grading</p> <p>In July 2009, Executive decided that no further progress towards single status could be made at that time. It is now the Council's intention to work toward convergence of terms and conditions of employment for all staff across the two Authorities which includes Pay.</p> <p>It is not possible to estimate the cost of such convergence and it is difficult to foresee to what extent the Council will be subject to equal pay claims.</p>	<p>A pay and grading review programme commenced in June 2012 on a service by service basis with a planned completion date of 31st March 2014.</p>	<p>Head of Paid Service Head of Corporate Services 31 March 2014</p>
<p>Land Charges</p> <p>In common with 370 other English district and unitary councils, South Hams District Council may be the subject of a claim by a group of companies whose business is the making of personal searches of our land charges records.</p> <p>No claim has been served upon the Council and the issue is whether the charges were lawfully imposed. The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those regulations were unlawfully made, the Government should compensate.</p>	<p>The matter is being dealt with by the Local Government Association.</p> <p>The case was due for another case management discussion at the High Court on 19th June 2012, which was adjourned and rescheduled for September 2012.</p> <p>Any action the Council takes will be dependant upon the judgement.</p>	<p>Monitoring Officer Head of Planning, Economy and Community</p> <p>Timescales dependant upon the judgement.</p>
<p>Internal and External Audit Reports</p> <p>Some issues have been identified in audit reports by the Council's external auditor and the shared in-house internal audit team.</p> <p>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed.</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.</p>	<p>Heads of Service S.151 Officer Chief Internal Auditor In line with agreed timescales</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed and Dated:

.....
**Leading Member & Chief Executive on behalf of
South Hams District Council**

AGENDA
ITEM
9

SOUTH HAMS DISTRICT COUNCIL

AGENDA
ITEM
9

NAME OF COMMITTEE	Audit Committee
DATE	27th September 2012
REPORT TITLE	Fighting Fraud Locally and the National Fraud Initiative - Checklists
Report of	S.151 Officer, and Chief Internal Auditor
WARDS AFFECTED	All

Summary of report:

The purpose of this report is to inform members of the position of the Council against the checklists included in the following documents:

- National Fraud Authority's strategy 'Fighting Fraud Locally'; and
- Audit Commission publication 'The National Fraud Initiative (Council members' briefing)' (May 2012).

The checklists included in these documents have been completed with the Council's responses at Appendices A and B. They demonstrate that the Council has the appropriate anti fraud arrangements in place and take the NFI seriously. However, for 2013/14 the Chief Internal Auditor will make some resources available for specific counter fraud work.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee RESOLVES to consider and note the position of the Council against the checklists attached at Appendices A and B.

Officer contact:

For further information concerning this report, please contact:
 Lisa Buckle, S.151 Officer (01822) 813644 or email lbuckle@swdevon.gov.uk
 Allan Goodman, Chief Internal Auditor allan.goodman@swdevon.gov.uk

1. National Fraud Authority – Fighting Fraud Locally

- 1.1 For several years the Audit Commission has published 'Protecting the Public Purse – Local Government Fighting Fraud' (September 2009 and October 2010), and the related checklist covering the Council's anti fraud arrangements has been presented to the Audit Committee annually (latest April 2012).
- 1.2 At the June Audit Committee, the Chairman advised members that he had received and read the National Fraud Authority's paper Fighting Fraud Locally – The Local Government Fraud Strategy. Members agreed that the Chief Internal Auditor be asked to complete the checklist attached to the Strategy for the September 2012 Audit Committee.
- 1.3 The document calls for the adoption of a tougher approach to tackle fraud against local authorities organised around the three themes of Acknowledge, Prevent and Pursue. The approach demands a new partnership between central and local government and suggests that local government must recognise the cross boundary nature of fraud and adopt the best practice identified throughout this document to tackle the highest fraud risks, whilst central government needs to create the right environment to enable local authorities to protect public funds through the creation of a positive incentive regime, the removal of barriers to information sharing and by conducting a review of the use of powers by local authorities and how they could be harnessed more effectively.
- 1.4 At the same time as unprecedented change to the delivery of local services and increased risk, the counter fraud environment is being fundamentally altered. The abolition of the Audit Commission, the changes proposed to local auditing arrangements and the creation of a single fraud investigation service to tackle benefit fraud will considerably alter current fraud governance arrangements. These factors suggest that this is the time to put forward a new and tougher approach to tackle fraud against local government and introduce new arrangements to ensure that local government has a resilient response to the changed conditions.
- 1.5 If the only impact this strategy had was to encourage the wider use of such good practice millions of pounds would be saved. However, that is not the limit of our ambition.
- 1.6 Fighting Fraud Locally outlines a strategic approach that, if adopted across local government, will not only enable local authorities to become better protected from fraud but also contribute to the nation's ability to detect and punish fraudsters. The new approach will strengthen the counter fraud response across local government and will result in more fraudsters being caught, more fraud prevented and more money returned to authorities.
- 1.7 By using the free tools provided (one of which is the checklist at Appendix A of this report), the strategy says that local authorities will:
 - Be able to estimate the level of individual fraud loss to their Council and understand their fraud risk and use this information to target their resources more efficiently.

- Be able to establish their resilience to the fraud threats and assess themselves against a checklist for what arrangements they should have in place to tackle fraud (Appendix A).
- Prevent more fraud by having access to a good practice bank of tried and tested methods.
- Have greater support through accessing an online technical advice service and a peer review process of fraud experts.
- Establish partnership arrangements more easily through using the templates held in the good practice bank.
- Be able to cost effectively create an anti-fraud culture through using the free fraud awareness training.

1.8 The public expects local authorities to be accountable for protecting public money and to operate in a transparent manner. To this end there needs to be effective systems for ensuring that anti-fraud arrangements are in place and working. Fraud is a common threat and requires common solutions and a common approach. Therefore local authorities need to adopt consistent practices and collaborate with each other and with other agencies, particularly to tackle cross authority attacks.

1.9 The best fraud fighters are the staff and clients of local authorities. To ensure that they are supported to do the right thing a comprehensive anti-fraud culture needs to be maintained, including clear whistle-blowing arrangements.

1.10 At present, the Council has a dedicated benefits fraud team which carries out counter fraud work in relation to benefit claims, but general counter fraud work is provided through Internal Audit's audit plan and reviews of the governance and control framework. In response to the NFA's strategy and checklist, the Chief Internal Auditor will redirect some of the resources in next year's plan to specific counter fraud work.

2. National Fraud Initiative (NFI)

Audit Commission

2.1 At the Audit Committee Workshop in June 2012, members confirmed that they would like more information on the National Fraud Initiative (NFI) in response to the Audit Commission's council members briefing document of May 2012

2.2 Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £939 million of fraud, overpayments and error across England, Scotland, Wales and Northern Ireland. Of this total, £813 million has been detected in England.

2.3 Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the Government has confirmed it intends to continue the NFI. The Commission will work closely with the Department for Communities and Local Government and other stakeholders to secure the most appropriate home for the NFI. While the Commission retains oversight of the NFI it will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

Running the NFI

- 2.4 Some 1,300 participating organisations from across the public and private sectors provide data, and key data sets are provided by government departments and other national agencies. Participants include all local councils, police authorities, and fire and rescue authorities and local NHS bodies, who are required by law to provide data for the NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

Legal Framework and Security

- 2.5 The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.
- 2.6 Datasets are transferred by participants to the Audit Commission via a secure NFI website using an electronic transfer process which encrypts data on upload. All the matches are provided back to participants using the same secure tool. Access to the tool and NFI matches is controlled by secure password, and strict controls exist to ensure access is only provided to authorised individuals.
- 2.7 The Council's systems include Fair Processing statements to users that contribute to the NFI remaining within the Data protection Act.

The NFI at South Hams District Council

- 2.8 Datasets are provided to the NFI every two years, the most recent being October 2010 and will be due again in October 2012. Datasets were provided for Benefits, Payroll, Creditors, Licensing etc. The matches are returned in late winter ready for review to commence.
- 2.9 Through accessing the NFI website for the Council, officers are able to review 52 match types between these datasets. Of the 52 match types, the range of individual investigations per match type is 1 to 676 with a total of 3088 individual matches to be investigated.
- 2.10 Where a match is found it indicates that there is an inconsistency that requires further investigation by the body. The investigation may detect instances of fraud, over or under payments, and other errors.
- 2.11 At the date of this report, **2505 matches had been investigated and cleared**, with some work still continuing on others e.g. Council Tax Rising 18s.
- 2.12 **Cases of fraud identified numbered 2, in addition to 30 errors (total value together £40,999.08).** The match types with the most error were 'Housing Benefit Claimants to Student Loans' with 7 errors (total £21,640.58) and 'Housing Benefits to Pensions' with 1 error and 1 fraud (total £5,443.72). The amounts are recoverable from the claimants using the normal benefit recovery routes.
- 2.13 The appropriate action has been taken for the fraud and error cases and includes a court case and caution for the two fraud cases in line with the Council's approved Benefits Fraud Prosecution and Sanction Policy, and seeking to recover as much of the remainder as possible.

2.14 The above demonstrates that the Council takes the NFI seriously and a lot of work is undertaken by officers in preparing and sending the required data, as well as investigating the results.

2.15 The checklist included in the Audit Commission’s briefing to members has been completed by the Chief Internal Auditor with the Benefits Fraud Manager and appears at Appendix B of this report.

3. LEGAL IMPLICATIONS

3.1 Statutory powers: Accounts and Audit Regulations 2003, 2006, 2011.

4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

5. RISK MANAGEMENT

5.1 The risk management implications follow this table:

Corporate priorities engaged:	All
Statutory powers:	Accounts and Audit Regulations 2003
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.
Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	Audit Commission report: Protecting The Public Purse 2011 (Fighting Fraud against Local Government); The Council’s Anti Fraud, Corruption & Bribery Policy and Strategy 2011; Benefit Fraud Prosecution and Sanction Policy; Fraud, Corruption & Bribery Response Plan; and Confidential Reporting (Whistle Blowing) Policy
Appendices attached:	Appendix A: Completed checklist from Protecting The Public Purse 2011 (Fighting Fraud against Local Government)

STRATEGIC RISKS TEMPLATE

No	Opportunity Title	Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Demonstrating zero tolerance of fraud.	Communicating the Anti-Fraud stance to members, officers and the public may deter those that consider that an attempted fraud is work risking.	-	-	-	↔	The Council demonstrates its commitment to an Anti-Fraud culture, by the regular review, updating and approval of an Anti Fraud Strategy. Strategy.	Chief Internal Auditor
2	The Council's response to suspected fraud is documented	Investigations are commenced promptly after suspicions are aroused.	-	-	-	↔	The approach to investigating suspected fraud is clearly laid out in the Council's Fraud And Corruption Response Plan appended to the Anti-Fraud and Corruption Strategy. Early liaison with the police, where appropriate is clearly stated in the Council's Fraud And Corruption Response Plan.	Chief Internal Auditor
3	Preventative measures are in place	Preventative measures are in place, including a system of internal controls which are regularly reviewed.	-	-	-	↔	Controls are regularly reviewed by managers and Internal Audit on a risk basis, with vulnerability to fraud being a key part of the audit risk assessment.	Chief Internal Auditor

No	Risk Title	Risk Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
4	Risk of fraud.	Risk of fraud or corruption being perpetrated on the Council.	2	2	4	↔	Preventative measures are in place. These include a system of internal controls which are regularly reviewed, and a zero tolerance policy which is communicated to members, officers, stakeholders and the community. The risk of fraud appears in the Council's risk register.	Chief Internal Auditor
5	Reporting suspected fraud is encouraged.	Fraud or corruption is not identified at an early stage.	2	2	4	↔	The Council's Confidential Reporting Policy (whistle blowing) encourages members, officers and the public to report suspected fraud without fear of reprisals. Internal control measures are in place.	Chief Internal Auditor
6	A professional approach to fraud investigation	Suspected fraud or corruption is not investigated in a sound professional way.	2	2	4	↔	Only appropriately trained officers are appointed to investigate suspected fraud.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

NFA Checklist Item	Council's Arrangements	Action Required
<p>The Council has made a proper assessment of its fraud and corruption risks and has an action plan to deal with them and regularly reports this to its senior board and its members.</p>	<p>Outside of benefits fraud, for which there is a dedicated team, areas susceptible to fraud are assessed when the 5 Year and Annual Internal Audit Plans are drawn up and prioritised.</p> <p>Services risk registers also highlight areas that are susceptible to fraud. Heads of Services are asked to confirm controls are in place and that they are unaware of any fraudulent activity in their annual assurance statement for the System of Internal Control.</p>	<p>The Chief Internal Auditor will bring together a centralised list of fraud risks as part of the Internal Audit team's counter fraud work.</p>
<p>The Council has undertaken an assessment against the risks in Protecting the Public Purse and has also undertaken horizon scanning of future potential fraud risks</p>	<p>A report on "Protecting the Public Purse" is presented to Audit Committee annually (most recently April 2012), with an assessment of the effectiveness of the Council's anti fraud arrangements.</p>	<p>Horizon scanning for future potential fraud risks will be included in the report for 2013.</p>
<p>There is an annual report to the Audit Committee or equivalent detailing an assessment against the local government strategy Fighting Fraud locally and this checklist</p>	<p>Reference was made to NFA Strategy Fighting local Fraud in the Audit Commission's paper Protecting the Public Purse but was not available at the time of presenting the Audit Commission's checklist to the Audit Committee.</p>	<p>The annual report to the Audit Committee on the Council's anti fraud arrangements will include also the NFA's Fighting Local Fraud checklist.</p>
<p>There is a counter fraud and corruption strategy applying to all aspects of the council's business which has been communicated throughout the council and this has been acknowledged by those charged with governance</p>	<p>The Council's Anti Fraud, Corruption and Bribery Policy and Strategy states that the Council is committed to discouraging, preventing and detecting fraud and corruption where attempted on, or from within, the Council's organisation.</p>	<p>None</p>
<p>The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business</p>	<p>The Council has a number of policies and strategies already in place to promote and ensure probity and propriety in the conduct of its business.</p> <p>An annual Review of the Code of Corporate Governance is considered by the Audit Committee and any significant issues reflected in the Annual Governance Statement.</p>	<p>None</p>
<p>The risk of fraud and corruption is specifically considered in the Council's overall risk management process</p>	<p>The risk of fraud has been recorded in the Council's risk register.</p>	<p>None</p>

Voluntary Checklist Item	Councils Arrangements	Action Required
Counter fraud staff are consulted to fraud proof new policies, strategies and initiatives across Departments and this is reported upon to Committee	<p>The Council does not have the resources for dedicated counter fraud staff, outside of the Benefits team. Other counter fraud work is carried out by Internal Audit.</p> <p>The S.151 Officer is consulted on all new policies and has regard to the risk of fraud in her review.</p>	None
The Council has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring this is effective and this is reported to Committee	<p>Internal audit are alert to the potential for fraud with each audit carried out.</p> <p>The Council's Anti Fraud, Corruption and Bribery Policy and Strategy is supported by a Response Plan, and Confidential Reporting Policy which allows staff to "whistleblow".</p> <p>Any actual, suspected or alleged fraud is reported to Audit and Accounts Committee, as are the results of the Audit Commission annual survey.</p>	None
<p>The Council has put in place arrangements for monitoring compliance with standards of conduct across the council covering</p> <ul style="list-style-type: none"> • Codes of conduct including behaviour for counter fraud, anti- bribery • Register of interests • Register of gifts and hospitality 	<p>The following are in place and confirmed in the annual compliance review of the Code of Corporate Governance:</p> <ul style="list-style-type: none"> • Employee and member code of conduct • Register of interests • Register of Gifts and Hospitality 	None
The Council undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking checks to prevent potentially dishonest employees from being appointed	<p>Candidates that are selected for interview are required to provide two forms of identity.</p> <p>Referees provided by the applicant are written to by the Council.</p> <p>Evidence of the right to work in the UK via a British passport is required or other relevant documentation.</p> <p>Successful applicants are required to provide a National Insurance number.</p> <p>The Council's Agency contract requires the agency to undertake the same recruitment checks that the Council itself undertake.</p> <p>Our Payroll audit of 2011/12 confirmed that evidence of eligibility to work is obtained but not recorded in the exact terms expected by the Immigration, Asylum and Nationality Act 2006. Officers agreed to review and amend the procedures as required.</p>	Routine follow up of the 2011/12 audit will confirm that the agreed amendments have been implemented. The results will be reported to the Audit Committee.

Voluntary Checklist Item	Councils Arrangements	Action Required
Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to Committee.	This is set out in the Codes of Conduct, and until recently was reported to the Standards Committee.	Reporting procedures are under review following adoption of the new Codes of Conduct, in line with the Localism Act.
There is a programme of work to ensure a strong counter fraud culture across all department and delivery agents led by counter fraud experts	Only as a routine part of the duties of Internal Audit and Benefits Fraud teams.	The Chief internal Auditor to include days in future audit plans specifically for counter fraud work.
Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Internally and through the local media as appropriate and in line with the Response Plan and the approved Benefit Fraud Prosecution and Sanction Policy.	None
There is an independent Whistleblowing Policy which has been measures against the BSI, which is monitored for take up and it can be shown that suspicions have been acted upon without internal pressure.	The Confidential Reporting Policy has been approved by members, is promoted internally including on the Intranet, and externally on the Council's website. The Policy protects individuals who report matters in an honest way.	None
Contractors and third parties sign up to the Whistleblowing Policy and there is evidence of this. There is no evidence of discrimination for those who whistleblow.	The Confidential Reporting Code covers stakeholders and the community.	None
Fraud resources are assessed and adequately resourced.	Counter fraud, outside of Benefits, is part of the Internal Audit remit and an element of fraud response is part of the Internal Audit annual plan through the contingency days.	None
There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the Council's business and includes activities undertaken by Contractors and third parties or voluntary sector activities.	There is no specific annual fraud plan. However, the Internal Audit annual plan does provide cover for all areas of Council activity and is agreed by the Audit Committee.	In including days in future Internal Audit Plans for specific counter audit activities, a plan will be devised to direct the related work in an effective way. This will be reported to the Audit Committee.
Statistics are kept and reported by the Fraud team which cover all areas of activity and outcomes, benchmarking where appropriate.	Statistics are maintained of all work relating to NFI, investigations carried out and referrals made. These are reported to line managers and the Audit Commission and audit Committee via the Annual Fraud Survey.	None
Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation	The Constitution (Financial Procedure Rules) gives Internal Audit access to all premises and documents held by the Council.	None

Voluntary Checklist Item	Councils Arrangements	Action Required
There is a programme to publicise fraud cases internally and externally which is positive and endorsed by the Council's Communication Team	Any publicising of fraud cases would be carried out with the assistance of the Council's Public Relation team.	None
All allegations of fraud and corruption are risk assessed	All Internal Audit is preceded by a risk assessment and this includes allegations of fraud.	None
The written fraud response plan covers all areas of counter fraud work; prevention, detection, deterrence, investigation, sanctions and redress	The written fraud response plan covers all areas of counter fraud work; prevention, detection, deterrence, investigation, sanctions and redress and is published on the Council's Intranet.	None
The fraud response plan is linked to the Audit Plan and is communicated to senior management and members	The annual IA plan (approved by members) includes provision for auditors to carry out or assist with fraud investigations. The Response Plan states that Internal Audit would normally be appointed to investigate allegations of fraud, outside of Benefits.	None
Asset recovery and civil recovery is considered in all cases and is linked to a written sanctions policy	The Response Plan includes the requirement for the investigating officer to calculate any loss and the S.151 Officer to consider recovery of loss including through civil action and/or pensions.	None
There is a zero tolerance approach to fraud and corruption that is reported to Committee	The Policy, Strategy, Response Plan, and linked Disciplinary Policy, reflects the Council's zero tolerance approach to Fraud, Corruption and Bribery.	None
There is a programme of proactive counter fraud work which covers risks identified in assessment	Internal Audit Plans and the work of the Benefit Fraud Team.	Discussed above, Internal Audit to include some time in plans specifically for counter fraud work.
The Fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity	The Benefits Fraud Team have working arrangements and monitoring meetings with the Department for Work and Pensions (DWP), both Exeter and Plymouth offices. There is a dedicated fraud hotline is available to the public who can anonymously give information about any fraudulent claimant - the Council investigates every report. Benchmarking is also undertaken with other local authorities of sanctions taken.	None

Voluntary Checklist Item	Councils Arrangements	Action Required
The Council shares data across its own departments and between other enforcement agencies	<p>Full use is made of the NFI and in addition the Department for Work and Pensions Housing Benefits Matching Service on a monthly basis.</p> <p>Reference is also being made to a private sector company that helps businesses to manage credit risk and prevent fraud.</p> <p>Internal Audit shares data with neighbouring Council teams relating to fraud and the system weaknesses that allowed the fraud to be perpetrated.</p> <p>The Council receives alerts from the National Fraud Agency as this are passed to the relevant service to ensure that the Council's process do not make it vulnerable to similar.</p>	None
Prevention measure and projects are undertaken using data analytics where possible	As above	Internal Audit to include some counter fraud Computer Assisted Audit techniques (CAATs).
The Council actively takes part in the NFI and promptly takes action	The Council takes part in the Audit Commission NFI. Action is taken and outcomes are reported to the Audit Committee by exception through normal reporting channels where appropriate.	See also Appendix B of this report.
There are professionally trained staff for counter fraud work trained by professionally accredited trainers using the Counter Fraud Accreditation Board. If other staff undertake counter fraud work they must be trained in this area.	All staff operating counter fraud activities are appropriately trained. Training is identified through the Council Appraisal System.	None
The counter fraud team has adequate knowledge in all areas of the Council or is trained in these areas.	Internal Audit has adequate knowledge of all areas of the Council.	None
<p>The Counter Fraud Team has access where appropriate to specialist staff for;</p> <ul style="list-style-type: none"> • Surveillance; • Computer forensics; • Asset recovery; and • Financial investigations 	If suitably trained and experiences staff are not available internally, external specialists would be used either via partnership, other Councils or procured.	None
Weaknesses revealed by instances of proven fraud and corruption are looked at and fed back to Departments to fraud proof systems.	After each fraud investigation, a report is sent to management highlighting areas where procedures require amendment to reduce or remove the risk of further fraud.	None

Question	Answer/Action Required
<p>The NFI in our council</p> <ul style="list-style-type: none"> • What is the role/post of the senior responsible officer accountable for the NFI in our council? • Do we have a lead elected member for counter-fraud activity, including the NFI? • What role does our audit committee play? • How are other elected members or non-executive members kept informed of the NFI? • What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI? • Who decides and monitors this approach? • How is the NFI reflected in the governance training and development provided for officers and board/elected members? 	<p>The Council's Benefit Fraud Manager acts as Co-ordinator and for the purpose of NFI only reports to the Head of Finance and Audit (S.151 Officer). No</p> <p>The Audit Committee has had little involvement until this report. The total fraud reported in the Audit Commission's Annual Return is presented to the Audit Committee.</p> <p>The Council's Benefit Fraud Manager acts as co-ordinator and key contact and ensures that the datasets are supplied to NFI by ICT officers and that the relevant services review and investigates the identified matches. Long standing approach approved by the former S.151 Officer (left July 2011) and continued by the current officer. Internal Audit review the process from time to time. General Anti Fraud training only is provided but the anti fraud policy makes reference to NFI.</p>
<p>Maximising results</p> <ul style="list-style-type: none"> • What resources do we invest in the NFI? • What were our outcomes from the most recent NFI? • Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible? • What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation? • What changes have we made as a result? • Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches? 	<p>As discussed in the report above, with over 2500 matches investigated the Council invests a reasonable amount of staff time into NFI, from the co-ordinator to staff in certain services that investigate each individual match. The outcomes are described in the report above, and are thought to be diminishing with recent NFI rounds.</p> <p>Yes</p> <p>With relatively few outcomes compared with the matches investigated, the NFI provides some assurance over the System of Internal Control at October 2010 (date of the datasets). System changes have not been made directly as a result of the NFI, but any weaknesses identified would be separately assessed and the appropriate action taken.</p> <p>Yes</p>
<p>Broadening our council's engagement with the NFI</p> <ul style="list-style-type: none"> • Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching? • Have we considered how we could use the new flexible batch and real-time matching services? 	<p>No, because much of the data included is already received the Department for Work and Pensions (DWP) monthly referral.</p> <p>Yes, the Council's Benefit Fraud Manager would like to use the two data matches mention in the body of the report in the intervening years at a cost of £300 per data set.</p>
<p>Data Security</p> <ul style="list-style-type: none"> • What is our strategy/policy for data security? • Is there any specific reference to the NFI data security in the strategy? 	<p>The ICT Security Policy is in place and covers the secure transmission of data, but does not specifically refer to the NFI.</p>

Question	Answer/Action Required
<p>The NFI fit with wider counter-fraud policies</p> <ul style="list-style-type: none"> • How does the NFI influence the focus of our counter-fraud work? • Does our counter-fraud policy include reference to the council's participation in the NFI? • Do we publicise the outcomes from the NFI? How does the NFI influence how and what we communicate to the public about our approach to counter-fraud? • Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy? 	<p>The NFI has very little influence on benefits counter fraud work, as the NFI is a counter fraud tool in its own right.</p> <p>Yes</p> <p>This report for the first time in general terms, although the court case relating to one of the fraud cases was reported in the local paper.</p> <p>Not at present.</p>

NAME OF COMMITTEE	Audit Committee
DATE	27th September 2012
REPORT TITLE	PROGRESS AGAINST THE 2012/13 INTERNAL AUDIT PLAN
Report of	Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2012/13 to the 31st August 2012, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2012/13 annual audit plan, reviewed by this Committee in April 2012.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee considers the progress made against the 2012/13 Internal Audit Plan and comments on the summary of issues arising.

Officer contact:

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1. BACKGROUND

1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2012 (Minute reference A.33/11) and cover:

Purpose, Authority and Responsibility;

Independence;
 Audit Management;
 Scope of Internal Audit's Work;
 Audit Reporting; and
 Audit Committee.

- 1.2 The Audit Strategy was updated for 2012/13 and was approved by the Audit Committee in April 2011 (Minute reference A.36/11 refers) and covers:

Objectives and Outcomes;
 Opinion on Internal Control;
 Local and National Risk Issues;
 Provision of Internal Audit; and
 Resources and Skills.

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 2012/13

Audit Plan 2012/13

- 2.1 The 2012/13 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2011 (A.37/11 refers).

Local and National Risk Based Amendments to the Plan

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated into the audit plan either through the contingency days or by change to the plan, depending on the significance.
- 2.3 The Committee has been informed orally of the following amendment to the 2012/13 plan at previous meetings:

Audit	Plan Days 2012/13	Plan Days Update	Reason for Change
Dartmouth Town Council	5	0	Arrangement terminated by Dartmouth Town Council on cost grounds, after the SHDC plan had been presented to the April Audit Committee.
West Devon District Council	95	100	To cover the Code of Corporate Governance and Annual Governance Statement previously undertaken by the Finance team.

- 2.4 Overspends on the estimated time for individual audits occur as the time in the audit plan is an estimate based on risk and generally not the amount of time needed to do the work required. All efforts are made to 'cut our cloth according to our means', but in some circumstances where control issues are identified, a risk based assessment is carried out. This constitutes consideration, depending on the significance, of whether

additional time should be spent and if so where the work is to be charged, either contingency or by change to the audit plan.

2.5 The following table sets out the significant overspends on time budgets (3.5 days or more) on individual audits as totalled in Appendix A, and the reasons for the overrun:

Audit	Planned Days	Days Used	Reason for Overspend
-	-	-	None over 3.5 days
-	-	0	As para 2.4 - Culmination of overspends below 3.5 days for finalised audits
Total	-	0	Overspends to date – 0 day

Resources and Skills

2.6 Sickness to the 31st August 2012 is 1 day (2011/12 equivalent 4 days).

2.7 In 2012/13 to date, training has been or is being provided to the audit team as follows:

Chief Internal Auditor

- Assessing Corporate Governance Effectiveness (IIA Bristol);
- Achieving Success in Challenging Times (IIA Exeter);
- Middle Manager Development Programme (internal) – modules on Corporate Services (Constitution etc); Managing Attendance and Managing Change; and
- Localisation of Council Tax (LG Futures, Totnes).

Senior Auditor:

- Achieving Success in Challenging Times (IIA Exeter); and
- Excel 2007 Advanced (E Academy).

Auditor:

- Microsoft Outlook (E Academy); and
- Localisation of Council Tax (LG Futures, Totnes).

Progress Against the Plan

2.8 The 2012/13 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit, and replicates a part of the monitoring report presented to the S.151 Officer on a monthly basis.

2.9 The reporting of individual high priority recommendations is set out at **Exempt 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.

2.10 **Exempt Appendix C** provides a summary of the main issues raised for all of the audits where a final audit report has been issued. In addition,

the Appendix shows the results of our follow up of previous audit work and tasks that have not produced an audit report.

- 2.11 **Exempt Appendix D** provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

Non Compliance with Financial Procedure Rules

- 2.12 There are no significant issues to bring to the attention of the Committee so far this year.

Fraud, Corruption or Bribery

- 2.13 No actual, suspected or allegations of fraud, corruption or bribery have been identified so far this year.

Performance Indicators

- 2.14 Internal Audit's performance indicators are mainly collected annually and will be reported to the Audit Committee in full in the year-end report. The full list of those recorded is set out in the Audit Strategy 2012/13.

- 2.15 At this stage in the year, the key indicator 'Completion of 2012/13 Audit Plan' is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2011/12 combined audit plan.	90	96	As reported to the Audit Committee June 2012.
Audits at the 31st August 2012 at various stages of completion from 2012/13 audit plan and their 2011/12 equivalents.			
SHDC	-	32%	(37% at August 2011).
WDBC	-	33%	(34% at August 2011).
Combined plan	90	34%	(38% at August 2011). Target to 31 st August 2012: 30%

Internal Audit – Shared Services

- 2.16 The following has been achieved so far this financial year:

Shared service with West Devon

- Revised joint Anti Money Laundering Policy presented to the Audit Committee to recommend approval by the Council. Following the Council approval, the document and supporting guidance has been published on the Council's Intranet and targeted training commenced.
- Work has started on the revised Finance Procedure Rules; the document is to be aligned as closely as it can be. Originally planned

for presentation to the September Audit Committee, a revised date of December 2012 is to be reported to the Joint Steering Group;

- Progress on the 2012/13 audit plan reported to the West Devon Audit Committee. A growing number of audits are being completed across the two sites at the same time;
- Work on a recharging process to ensure that costs related to the sharing of services is charged to the relevant Council and cross subsidising is avoided. This includes a visit to a Council that has been operating shared services with a neighbouring Council for four years

Teignbridge

- Exchange of audit programmes, advice, official guidance and best practice;
- Co-operation re the 2012/13 audit of Building Control; and
- Liaison over various corporate documents.

3. LEGAL IMPLICATIONS

3.1 Statutory Powers: **Accounts and Audit Regulations 2003, 2006, 2011**

4. FINANCIAL IMPLICATIONS

4.1 None, within existing budgets.

5. RISK MANAGEMENT

5.1 The risk management implications follow this table:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2003, 2006, 2011
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16.
Appendices attached:	Appendix A: Audit Plan 2012/13 – Progress to 31st August 2012 Exempt Appendix B: Planned Audit 2012/13 – Final Reports: Detailed Items Exempt Appendix C: Planned Audit 2012/13 – Summary of Results Exempt Appendix D: Unplanned Audit 2012/13 – Summary of Results

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Opportunity of Make the Best Use of Scarce Audit Resource	Audit work completed in line with the audit plan and to the required quality standards will ensure that the external auditor places reliance upon the work of internal audit, resulting in no additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	-	-	-	↔	A risk based audit plan directs scarce audit resources towards areas of high risk to the Council.	Chief Internal Auditor
2	Inappropriate Use of Scarce Audit Resource	The directing of scarce audit resources away from areas of high risk may undermine the opinion provided to the Council by the Chief Internal Auditor on the System of Internal Control.	2	2	4	↔	Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year.	Chief Internal Auditor

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Links with External Audit	The external auditor placing no reliance upon the work of internal audit, resulting in additional charges to carry out the audits required to allow him/her to issue the certificate and opinion on the Council's accounts, including for the Annual Governance Statement.	2	2	4	↔	Regular liaison with the external auditor. Risk based audit plan, reviewed by senior managers and members, and updated as appropriate through the year. Regular monitoring of progress by the S.151 Officer and the Audit Committee.	Chief Internal Auditor
4	Assurance for the Annual Governance Statement	The Council's Annual Governance Statement cannot be signed if Internal Audit fails to complete the work set out in the approved risk based audit plan due to unforeseen circumstances.	2	2	4	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee. Audit approach adheres to the appropriate professional standards. Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
MAS & Budgetary Control	13									
Creditor Payments	11									
Payroll	10									
Council Tax	14									
Business Rates (NDR)	12									
Benefits	20									
Debtors	10									
Treasury Management	7									
Capital Expenditure	8									
Fundamental Systems	105									
Salcombe Harbour	10									
Dartmouth Lower Ferry	9									
Street Scene - Car and Boat Parking	9									
Private Sector Housing Renewal	8	■								30% completed.
Data Quality & Performance Indicators	5									
Email Monitoring	4	■								90% completed.
Internet Monitoring	4	■								90% completed.
Computer Audit	26									
Grants - RDPE Rural Community LAGs	50	24 days used	-	-	-	-	-	-	-	40 project claims audited; plus 16 management & Admin invoices.

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APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Follow Up of Previous Year's Audits	10	2 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	55	23 days used	-	-	-	-	-	-	-	
Corporate Governance	8									
Exemptions to Contract or Financial Procedure Rules	5	1.4 days used	-	-	-	-	-	-	-	8 Exemption applications received and processed April to August 2012.
System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	■	-	-	AGS recommended to the Council for approval following report to the Audit Committee - August 2012. AGS to be published September 2011. Audit report summary to Audit Committee - September 2012
Risk Management / Business Continuity	5									
West Devon Borough Council	95 + 5	39 days used	-	-	-	-	-	-	-	Separate report to WDBC Audit Committee
Dartmouth Town Council	5 - 5	X	X	X	X	X	X	X	X	Arrangement ended by Town Council.
Other Essential	307									
Community Parks and Open Spaces	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Building Maintenance	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Print Room	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Health and Safety at Work	9									
Pannier Markets	9	■	■							Draft report issued 20 th August 2012
Insurance	9	■								10% completed.
Complaints System	5	■	■	■	■			■		Summary to Audit Committee - September 2012
Building Control	5	■								54% completed.
Capital Receipts	5									

APPENDIX A

Projects Agreed in the Audit Plan	Planned Number of Days	Fieldwork Commenced	Draft Report	Management Comments Received	Finalised	Opinion (finalised reports only)				Comments
						Excellent	Good	Fair	Poor	
Inventories	3									
Procurement	10									
Schemes with Other Organisations	9	■	■							Draft report issued 21 st August 2012
Land Charges including Street Naming	9	■	■	■	■		■			Summary to Audit Committee - September 2012
Major Developments (including Sherford)	6	■	■							Draft report issued 25 th July 2012
Advice to Information Compliance/Other Groups	3	0.44 days used	-	-	-		-	-	-	-
Asset Management	7	-	-	-	-		-	-	-	-
Corporate Management Cost Centre	6	■								54% completed.
Shared Services	5	■	■							Draft report issued 23 rd July 2012
Other	127									
Audit Administration	20	7.4 days used	-	-	-		-	-	-	-
Audit Management, including Audit Planning	20	8 days used	-	-	-		-	-	-	-
Audit Monitoring against the Plan, including Reports to Management and Audit Committee	15	7 days used	-	-	-		-	-	-	-
Training	10	7.5 days used	-	-	-		-	-	-	-
Miscellaneous e.g. Financial Procedure Rules	5	3 day used	-	-	-		-	-	-	-
Other	70									
Overall Total	601									

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MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT FOLLATON HOUSE, TOTNES ON 27 SEPTEMBER 2012

Members in attendance			
* Denotes attendance			
*	Cllr I Bramble	*	Cllr L P Jones
*	Cllr C G Bruce-Spencer (Vice Chairman)	*	Cllr J T Pennington (Chairman)
*	Cllr A S Gorman		

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Finance and Audit, Chief Accountant, Principal Accountant, Chief Internal Auditor, Risk and Health & Safety Advisor and Member Support Officer. Also, the Audit Manager and District Auditor – Audit Commission
Item 5	A.13/12	Corporate Director (AR) and Head of Assets

A.11/12 MINUTES

The minutes of the meeting held on 17 July 2012 were confirmed as a correct record and signed by the Chairman.

A.12/12 DECLARATIONS OF INTEREST

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

A.13/12 STRATEGIC RISK ASSESSMENT – SIX MONTHLY UPDATE

Members considered a report which sought to inform them of the current situation with regard to corporate strategic risk assessment and a summary of the management/mitigation of the identified risks.

In light of the Committee wishing to discuss elements of the exempt appendices, it was:-

RESOLVED

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following items of business in order to avoid the likely disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act.

Members then discussed the exempt appendices, and the Corporate Director and Head of Assets responded to a number of queries that were raised.

It was then:-

RESOLVED

That the public and press be readmitted.

It was then:-

RESOLVED

That the Committee note the report and the strategic risks with a score over 16 and has commented on the nature of the risks and the risk management actions proposed.

A.14/12 AUDIT COMMISSION – ANNUAL GOVERNANCE STATEMENT

The District Auditor informed Members that the Audit Commission would be issuing an unqualified opinion on the Accounts and an unqualified value for money conclusion.

He highlighted some key messages in the statement. These being:
Property, Plant and Equipment (PPE) Asset Verification: Heads of Service review the asset register at the year end to verify that it is complete, the assets included within it physically exist and that they were owned by the Council as at 31 March 2012. Heads of Service were supplied with an incomplete asset register a few days before the year-end and could not therefore identify that some purchased assets were missing from the asset register and that some 2011/12 disposals (that happened in the last few days in March) were still included. In future, this list would be provided to Heads of Service and Middle Managers in early April.

PPE Disclosure Note: Some figures in the PPE note had been incorrectly disclosed net of depreciation charged to the Comprehensive Income and Expenditure Statement. A similar issue had been reported in the 2010/11 Annual Governance Report. These errors had no effect on the PPE net book value disclosed in the Balance Sheet and had been amended in the accounts.

Accruals Process: Some weaknesses had been identified in the Authority's accruals process. Testing found that some small items of income and expenditure had not been accounted for in the correct year in line with the Authority's accruals policy. The District Auditor went on to say that a lot of work had been undertaken by both the Finance staff and the Internal Audit Team to ensure the sampling errors were not systemic.

During the discussion, the following points were made:

- The Vice Chairman agreed that the Finance staff should be congratulated for all the hard work which had been undertaken in order to achieve value for money, but she expressed disappointment that the issue regarding PPE disclosure that had been reported in the 2010/11 accounts had recurred in the 2011/12 accounts. The Head of Finance and Audit informed Members that it had been thought that the asset management software (RAM) used had produced a report in the correct format. Unfortunately, this proved not to be the case. However, she gave assurances that the software suppliers would be approached to ensure that a new report would be available for the 2012/13 accounts.
- The District Auditor stated that the issues reported were small and should be considered in the context of the overall audit assessment, i.e. that he intended to issue an unqualified opinion on the Authority's 2011/12 financial statements.

It was then

RESOLVED

That the Annual Governance Statement 2011 and the report of the Auditors and its recommendations be noted.

A.15/12 ANNUAL STATEMENT OF ACCOUNTS 2011/12

The report was discussed and the significant savings that would arise from the impending change in external audit provider be noted.

It was then

RESOLVED

That:

- 1) the wording of the Letter of Representation be approved; and
- 2) the audited Statement of Accounts be also approved.

A.16/12 UPDATE OF THE ANNUAL GOVERNANCE STATEMENT 2011/12

Members were informed that there were issues regarding the preparation of the Annual Governance Statement, some of which related to:

Shared Service Operating Arrangements, whereby the temporary position of the Monitoring Officer would not be resolved until the outcomes of the current legal review were known, and also the Dartmouth Embankment. These issues meant there would be a revision to the dates for completion of the action plan to address the significant governance and control issues identified through the assurance process.

During the discussion, the following issues were raised:

- The issue of the recent planning application for a Costa Coffee Shop in Totnes was discussed and the issue it had raised with regard to the interpretation of the new planning framework and to what extent the wishes of a local community were considered in such applications where fierce opposition had been demonstrated. This was deemed to be unexplored territory with a potential risk for appeals. It was discussed that this application highlighted an issue for contentious planning applications all over the country.
- With regard to the post of the Monitoring Officer, it was asked if this post could be undertaken as a shared post. Members were informed that there was a benefit in this being a shared post in that constitutions could be streamlined where possible. However, it was noted that there would need to be separate deputy Monitoring Officers to ensure sufficient cover for the business of various panel and committee meetings and to protect the Councils from any potential conflict of interest brought about by a shared Monitoring Officer.
- Members were informed that maintaining whistleblowers anonymity was built into the Policy and the organisation also had to provide feedback to the complainant in general terms that action has been taken.

It was then

RESOLVED

That the Audit Committee notes the minor updates to the Annual Governance Statement 2011/12 approved by the Council.

A report was presented which informed Members of the position of the Council against the checklists included in the:

- National Fraud Authority's (NFA) strategy 'Fighting Fraud Locally' and the
- Audit Commission publication, 'The National Fraud Initiative'.

The Internal Auditor informed that the Authority complied with the NFA's 'Fighting Fraud Locally' voluntary checklist, but did not have a dedicated Counter Fraud Officer post. The view had been taken that this role was undertaken by Internal Audit, though the Authority did have a dedicated Benefits Fraud Team.

During the discussion, the following points were raised:

- It was noted that there was a potential for benefit fraud to increase with the continuing poor economic outlook and that only time would tell if the change to localised Council Tax Support increased fraud or just the necessity for recovery action.
- The Vice-Chairman noted that the protection of the public purse was an issue for all staff and a Member suggested that it should be further promoted to Town and Parish Councils.
- With regard to recovery, Members noted that it was important for the reputation of the Council to undertake recovery action where necessary to send the message out that the Authority was robust.

It was then

RESOLVED

The Audit Committee notes the report and the condition of the Council against the Checklists.

A.18/12

PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2012/13

Members considered the report that informed them of the principal activities and findings of the Council's Internal Audit Team for 2012/13 to the 31 August 2012.

The Chief Internal Auditor highlighted that the five days which had previously been allocated to Dartmouth Town Council would now be allocated to undertaking the Annual Governance Statement at West Devon Borough Council.

During the discussion, the following points were raised:

- Members were informed that, whilst some contingency days were allocated to the plan, where an overspend was anticipated, days

were reallocated from elsewhere in the plan.

- With regard to the Financial Procedure Rules, these had been aligned with West Devon and the best aspects of both Authority's rules had been incorporated into them. The draft version was with the S.151 Officer and Monitoring Officer for review and was likely to appear on the Audit Committee's next agenda.
- Members were informed that four shared officers had met with officers from South Oxfordshire and Vale of White Horse Councils who were further along the road in terms of the shared service's agenda. The key areas that officers focused on were time recording, which was likely to be introduced at South Hams in the project based work in Assets and ICT

It was then

RESOLVED

That the Audit Committee notes the progress made against the 2012/13 Internal Audit Plan and has commented on the issues arising.

(Meeting commenced at 2.00 pm and finished at 4.00 pm)

Chairman