

# Public Document Pack



## **SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 18TH SEPTEMBER, 2014**

Agenda, Reports and Minutes for the meeting

### **Agenda No    Item**

1.    **Agenda Letter** (Pages 1 - 2)

2.    **Reports**

Reports to Audit:

a)    Item 5 - Annual Governance Statement 2013/14 - Update (Pages 3 - 28)

b)    Item 6 - Annual Statement of Accounts 2013/14 (Pages 29 - 126)

c)    Item 7 - Grant Thornton - Audit Findings for South Hams District Council (Pages 127 - 154)

d)    Item 8 - Internal Audit - Revision of and Progress against the 2014/15 Plan (Pages 155 - 180)

3.    **Minutes** (Pages 181 - 186)

**This page is intentionally left blank**

# Agenda Item 1

Please reply to: Darryl White  
Service: Corporate Services  
Direct Telephone: 01803 861247  
E-Mail: darryl.white@southhams.gov.uk

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

Our Ref: CS/DW

cc: Cllr Ward (lead Executive Member for Support Services)  
Remainder of the Council;  
Usual press and officer circulation.

10 September 2014

Dear Councillor

A meeting of the **Audit Committee** will be held in the **Cary Room**, Follaton House, Plymouth Road, Totnes, on **Thursday, 18 September 2014 at 10.00 am** when your attendance is requested.

Yours sincerely

Darryl White  
Democratic Services Manager

<p><b>FOR ANY QUERIES ON THIS AGENDA PLEASE CONTACT DARRYL WHITE DEMOCRATIC SERVICES MANAGER ON DIRECT LINE 01803 861247</b></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 31 July 2014 (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 they may have, including the nature and extent of such interests, in any items to be considered at this meeting;
5. **Annual Governance Statement 2013/14 – Update** – to consider a report which presents an update on the Annual Governance Statement 2013/14 (pages 4 to 28);
6. **Annual Statement of Accounts 2013/14** – to consider a report which presents a summary of net revenue and capital expenditure for consideration and which seeks approval of the audited Statement of Accounts for 2013/14 (pages 29 to 88);

7. **Grant Thornton – Audit Findings for South Hams District Council** – to consider a report which highlights the key matters arising from our audit of South Hams District Council’s financial statements for the year ended 31 March 2014 (pages 89 to 116);
8. **Internal Audit – Revision of and Progress against the 2014/15 Plan** – to consider a report which informs Members of the principal activities and findings of the Council’s Internal Audit team for 2014/15 to 31 July 2014 (pages 117 to 141).

**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 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](mailto: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**

\* \* \* \* \*

AGENDA  
ITEM

**5**

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

**5**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>18 September 2014</b>
<b>REPORT TITLE</b>	<b>ANNUAL GOVERNANCE STATEMENT 2013/14 – UPDATE</b>
<b>Report of</b>	<b>Head of Finance and Audit (S.151 Officer) Monitoring Officer Chief Internal Auditor</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**Summary of report:**

Members were provided with information at the July 2014 Audit Committee meeting to allow them to independently examine the Annual Governance Statement (AGS) for 2013/14, the supporting process and assurance streams, to enable the Committee to approve the AGS as part of the process for the approval of the Statement of Accounts. A recommendation was also made at the same meeting to amend the Constitution to provide specific delegation to the Audit Committee to approve the AGS in future.

The AGS provides public confirmation that the 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.

It 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.

**Financial implications:**

Within existing budgets.

**RECOMMENDATION:**

**It is RECOMMENDED that Members note that no changes were required to the Annual Governance Statement (AGS) 2013/14 from the version considered and approved at the July 2014 Audit Committee.**

**Officer contact:**

Allan Goodman, Chief Internal Auditor: 01803 861375  
[allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)

## **1 BACKGROUND**

### **The 2013/14 Annual Governance Statement (AGS)**

- 1.1 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.
- 1.2 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.
- 1.3 This also formed part of the report to the July 2013 Audit Committee meeting (Agenda Item 6) which allowed members to independently examine the draft Annual Governance Statement for 2013/14 and the supporting process and assurance streams, to enable the Audit Committee to approve the AGS as part of the process for the approval of the Statement of Accounts (Minute reference A.13/14 refers).
- 1.4 The July 2014 Audit Committee also recommended to the next Council meeting (October 2014) that Part 3 of the Constitution (Delegation Scheme) and Part 4 Financial Procedure Rules be amended for the Audit Committee to act as the nominated Member body to approve the Annual Governance Statement on behalf of the Council (Minute reference A.13/14 refers)..
- 1.5 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.

## **2. UPDATING THE 2013/14 ANNUAL GOVERNANCE STATEMENT**

- 2.1 The assurance streams for the draft Annual Governance Statement presented to the July 2014 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, so the Statement remains unchanged from the version presented to and approved by the July 2014 Audit Committee.
- 2.3 The final AGS for 2013/14 appears at Appendix B to this report and must be signed by the Leader and Head of Paid Service, as leading member and most senior officer.

## **3. LEGAL IMPLICATIONS**

- 3.1 The Accounts and Audit (Amendment) (England) Regulations 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

6.1 The risk management implications follow these considerations:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Considerations of equality and human rights:</b>	There are no specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	There are no specific crime and disorder issues arising from this report.
<b>Background papers:</b>	<ul style="list-style-type: none"><li>• Grant Thornton: Improving Council Governance 2013;</li><li>• Code of Corporate Governance for West Devon Borough Council 2011</li><li>• CIPFA/SOLACE (2007, 2010, 2012) Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities</li><li>• Independent Commission on Good Governance in Public Services (2005): The Good Governance for Public Services</li><li>• CIPFA/SOLACE document: Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)</li></ul>
<b>Appendices attached:</b>	<b>Appendix A</b> – Framework for the System of Internal Control and Annual Governance Statement (AGS) <b>Appendix B</b> – Annual Governance Statement for 2013/14

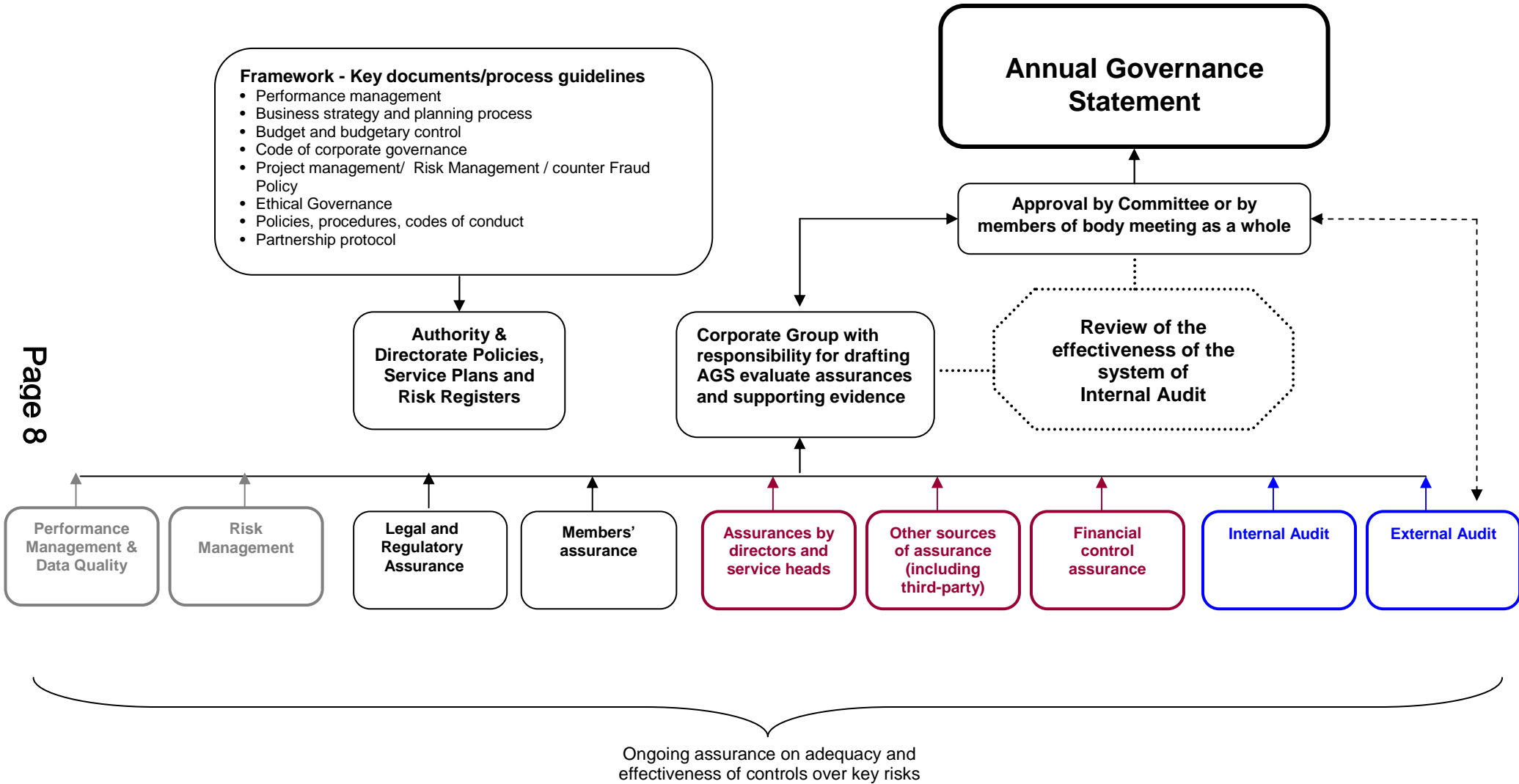
## STRATEGIC RISKS TEMPLATE

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 to demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together:</p> <ul style="list-style-type: none"> <li>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);</li> <li>Help ensure the quality of internal and external reporting.</li> <li>Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business.</li> </ul>	-	-	-	-	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	↕	Senior managers are aware that the service planning 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 published with the accounts; or that the process does not satisfy the requirements under the Accounts and Audit Regulations 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 maybe unable to sign it because issues are identified with the process. 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



## **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](http://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 the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

## **2. The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, 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 services and value for money.

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 and potential impact of those risks being 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 2014 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 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**. These are to be reviewed in 2014/15.

The **Priorities are confirmed in Article 6 of the Constitution** and are published on the Council's website, and link to the Connect Strategy.

The **Strategic direction is communicated to the citizens and service users** through the **Council's web-site**; a **magazine** 'South Hams Living' which also contains contributions from Devon County Council and the National Health Service and is available via **Twitter and Facebook**; and, a leaflet which is also sent annually with all Council Tax and Business Rates bills.

The Leader of the Council presents an **annual report** to the Council of the **achievements made against each of the Priorities** in the public session of the meeting. The Leader fields questions from Members with technical assistance by officers.

The **Connect Strategy** (further details at section 3 below) is produced by the **South Hams and West Devon Connect Partnership** brings together key stakeholders from the community, voluntary, business and public sectors.

In the future, 'Our Plan' will be one strategic plan setting out a vision, long term priorities and planning policies that are in line with the National Planning Policy Framework. To support this plan there will be an annual action plan to achieve the longer terms priorities and objectives, supported and informed by partner and community plans. This process will also help to commission services in a more effective way. We are currently working with Council Members to agree the scope of the plan and we will then shape and develop it throughout 2014 with a view to implementing it on the 1st April 2015. The Local Plan element, setting out planning policies and broad locations and sites for development, will also then be submitted to the Secretary of State and have to undergo an Examination in Public to ensure it is sound.

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 meeting of the Audit Committee (13<sup>th</sup> June 2013). 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 (value for money):**

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.

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 the Council. A **Connect Strategy 'Annual Update'** was published in 2013/14 and is available on the Council's website.

A **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.

**Performance measures** were reviewed in 2012/13 with new or revised indicators linked to drivers, goals and the service/Council priorities and these have continued through 2013/14. 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.

Each Head of Service has a service plan setting out 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 Financial Strategy (MTFS)** each year, which covers a four year period. That for the period 2014/15–2017/18 was approved by the **Executive** in July 2013 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. The MTFS for 2015/16 – 2018/19 will be presented to the Executive in October 2014.

Any inspectorate reports received are acted upon.

The Council's **external auditor's 'Audit Findings Report'** for 2012/13 was presented to the September 2013 Audit Committee. This report says that 'An unqualified Value for Money conclusion was issued in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013', and this was reiterated in the **Annual Audit Letter** sent to Members separately in October 2013. The letters and reports are made available on the Council's website.

A report to a Special Council meeting in October 2013 detailed the financial challenge faced by the Council over the next four financial years. It proposed the adoption of the **T18**

**Transformation Programme** which aims to deliver a new model in partnership with West Devon Borough Council which will ensure quality services for customers and communities.

The Council carried the motion and the model comprising the commissioning/delivery model, transformed shared business process and ICT was adopted. Governance of the Programme is separate with a **Steering Group comprising senior members** from both Councils who, at a meeting in January 2014, agreed **Terms of Reference** for itself and a **Programme Board**. The Programme Board for T18 met in June 2014 to monitor progress on the programme. *Monitoring of the governance of the programme has been reflected in Part 5 of this Statement.*

**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:**

The Council's **Constitution, which is available on the Council's web-site** and Intranet, defines and documents the roles and responsibilities of the Committee, Member and Officer functions, and **contains the delegation arrangements**.

The **Council's Constitution also defines the roles of Members and officers**. Part 5 of the Constitution **includes a Protocol on Councillor / Officer Relations**. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted Members of Council bodies in their dealings with officers where appropriate.

Members of the Executive, Scrutiny and the Leader and Chairman of the Council also have 'job descriptions' that describe their roles.

**Lead Executive members** are aligned to services areas and regularly communicate with and provide strategic direction to the relevant Head of Service.

At the December meeting the Council resolved to move towards an **Executive Director model as an interim measure** from 01.01.2014 until 31.12.2014 (at the latest), with a Corporate Director being assigned the role Head of Paid Service. The Constitution has been amended accordingly. At June 2014 Council, Members agreed a Senior Management Team Structure which included adopting an Executive Director model to take both Councils forward into the future. The abolition of the traditional Chief Executive role is saving the equivalent of 1% per annum in Council Tax. Recruitment to the senior management structure commences in September 2014.

The Council has approved an updated **Communications Policy 2012 – 2015**.

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

The **Codes of Conduct for councillors** (Part 5a of the Constitution) **and staff** (Part 5b of the Constitution) set out the standard of conduct and ethics expected.

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 personal / prejudicial interests has been provided to Members and officers.

### **Members**

The Member Code of Conduct changed as a result of the Localism Act. The revised Code was adopted by the Council at the meeting of 28th June 2012 with a start date of the 1st July 2012. It is formally issued to each member individually following an election.

An **updated version of the Member's Code** was presented to the Corporate Performance & Resources Scrutiny Committee in March 2014 and approval recommended to the Executive/Council. This version was subsequently agreed for **adoption at the annual Council meeting of May 2014**. In addition a review of the procedures for 'Dealing with Standards complaints' was presented to the same Committee.

The Constitution also includes a '**Members Planning Code of Good Practice**' and a 'Protocol on Councillor / Officer Relations'.

Part 3 of the Constitution, Delegation Scheme, gives the new Terms of Reference for the Council's Standards function under the Corporate Performance and Resources Scrutiny Panel and its sub-committee – the **Code of Conduct Scrutiny Panel**.

### **Staff**

**Officers are also subject to a Code of Conduct.** This is a requirement of the National Scheme of Conditions of Service applicable to all Local Government Officers. The 'Code of Conduct and Standard of Behaviour for Staff' is published on the Council's Intranet and is linked to the confidential reporting (whistle blowing) system.

**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, 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.

Financial Procedure Rules were reviewed, updated and aligned as far as possible with the West Devon Borough Council equivalent, with presentation to the Audit Committee in December 2012 and approval by Council in January 2013. Contract Procedure Rules were updated in June 2014.

The **formal management of risk is in place** and subject to monitoring by the Senior Management Team and reporting to the Audit Committee. The risk management process includes an approved Policy (April 2012), a Risk Management Group, risk registers, systems for identifying emerging risks, consideration of risk and opportunities in reports to Members and project management. *A separate risk register is maintained for the T18 Transformation Programme and is commented upon in Section 5 of this Statement.*



**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.**

***S.151 Officer (Chief Financial Officer)***

The **Constitution** states that the Council will appoint a '**S.151 Officer**'. S.113 of the Local Government Finance Act 1988 requires the S.151 Officer to hold a recognised professional qualification. The Council's S.151 Officer is a qualified accountant.

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

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules which are recommended for approval to the Council by the Audit Committee and are included in Part 4 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 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).

***Head of Paid Service***

Under Part 3 of the Constitution, the Chief Executive until 31st December 2013, and Executive Director thereafter, has delegated authority for the following:

- Responsibilities of the Head of Paid Service;
- Responsibilities of Returning Officer and Electoral Registration Officer;
- Shared Services.

The Head of Paid Service will report to Full Council on the manner in which the discharge of the Council's functions is co-ordinated, the number and grade of officers required for the discharge of functions and the organisation of officers.

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

**Article 7 of the Constitution and the Delegation Scheme in Part 3 set out the functions of the Audit Committee**, which is to provide independent assurance of the adequacy of the governance framework, risk management framework and the associated control environment,



and independent scrutiny of the Council's financial and non-financial performance and to oversee the financial and governance reporting process.

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, the number of times it meets (normally a minimum of four times) and the number of Members required to attend to ensure a quorum.

**Meetings of Member bodies**, including the Audit Committee, are scheduled using a calendar of meetings, and recorded through a system of **published Agendas and Minutes**.

**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 (Head of Paid Service) from the relevant government departments, the Monitoring Officer alerted by professional bodies and information received from managers' own professional bodies.

***Monitoring Officer***

Reports and recommendations are made to the decision makers by the relevant professional officers. A system of consultation of other professionals in advance of presentation to Members is in place, particularly where a recommendation requires the input of more than one profession e.g. legal advice, financial advice etc. The Monitoring Officer reviews the reports to Members for legality.

**Article 10 of the Constitution requires the Monitoring Officer to ensure lawfulness and fairness of decision making** and contribute to corporate management. These responsibilities are reflected in the related job description and specification and also include responsibility for maintaining the **Constitution**, supporting the Standards Committee, provide advice etc.

The Monitoring Officer cannot be the Chief Financial Officer or the Head of Paid Service.

There is the **potential for a conflict of interest as the Council's Monitoring Officer** is employed by West Devon but also the Monitoring Officer at South Hams District Council. This risk is **mitigated by a formally appointed Deputy Monitoring Officer** who is also shared, but is an employee of the South Hams.

### ***Chief Financial Officer's (CFO) Influence***

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.

**Article 10 of the Constitution** states that the CFO will report to the full Council and the external auditor if he/she considers any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.

### ***Internal Audit/Audit Committee***

Adherence to regulations, policies and procedures are also reviewed and monitored on behalf of the S.151 Officer by the **head of internal audit** (Chief Internal Auditor) and the audit team, and by 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.

Assurance for the role of internal audit and the **effectiveness of the 'system of internal audit'** is confirmed to the **Audit Committee (June 2013)**. It includes an annual self assessment of the effectiveness of the Audit Committee itself. The results are considered to be satisfactory for the purposes of the System of Internal Control and the AGS. However, an independent external Quality Assurance assessment is due. Only when this is satisfactorily completed can internal audit reports carry the phrase 'conducted in conformance with PSIA's'.

Internal audit's **annual report and Opinion on Internal Control**, a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements is presented by the Chief Internal Auditor at the same meeting.

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

### ***Whistle Blowing***

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

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.

### ***Counter Fraud***

**The Council has effective counter fraud arrangements.** It published an **Anti-fraud, Corruption and Bribery Policy and Strategy, and separate Response Plan**, which is available on the **Council's website**, and publicised through electronic bulletins, Intranet, leaflets on notice boards and officer Induction training etc.

**An annual review of the Council's counter fraud arrangements** are presented to the Audit Committee annually. The latest, April 2014, was based on the checklist from the Audit Commission document: 'Protecting the Public Purse 2013 (Fighting Fraud against Local Government)'.

A **dedicated housing benefit fraud and visiting team** cover revenues, benefits and housing. Counter fraud and corruption arrangements are also a key part of the internal audit of the Council's financial systems and governance framework, with specific counter fraud testing carried out.

### ***Complaints***

The **Council's Constitution 'Citizens and the Council'** outlines **the rights of Citizens including to complain to or about the Council.**

As well as the normal 'Contact Us' information, **the Council's website includes a Comments and Complaints page** which outlines the procedure for making a complaint, 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. **A report is provided to the Senior Management Team on the number of complaints by service and category, with the lessons learned.** The number of complaints also features in the 'Balanced Scorecard' described in the paragraph 3 above.

## **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, charring skills, governance arrangements and processes etc.

The Devon Member Development Officer, managed through the Council, offered all Members a 'one to one' interview which helped to formulate a corporate training plan for Members, and also identify individual development needs which were drawn up into **Personal Development Plans**.

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

- All Members are expected to attend planning training refresher sessions as and when they are provided;
- Newly elected Members will have to attend appropriate induction Planning training before they can take part in the planning decision-making process;
- 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;
- If they so wish, re-elected Members would be welcome to attend the induction sessions.

A 360 degree Appraisal process was undertaken, involving many of the councillors. The Leader is to review the results to form the basis of the recommendation to Council of senior member appointments for 2013/14.

Other training is also provided as required, and is recorded on the web-site. Members 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 development and 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**. 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. Meetings of Member bodies are scheduled using a calendar of meetings, and recorded through a system of Agendas and Minutes.

The Council's new website, under 'Your Council' includes the 'How You Can Get Involved' page, which provides advice on areas such as Public Questions at Meetings and 'Becoming a Councillor'.

In addition, the 360 Assessment has been developed and rolled out to all relevant staff. An assessment was completed for all new/changed policies, strategies and relevant projects including new service delivery, but this was amended during the year to cover only significant changes that affect the community or staff. The assessment covers Equality, 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, bring together key stakeholders from the community, voluntary, business and public sectors. Annual stakeholder events are held for each Council Priority.

The Council has developed the 'Voice': **Business Voice, Town and Parish Voice, Voluntary Voice and Young People 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.

South Hams and West Devon have worked together on a revised SCI. This document sets out how communities and other stakeholders can get involved in planning and was adopted by South Hams District Council on 29th March 2012 and West Devon Borough Council on 17th April 2012.

Our Plan, see paragraph 1 above, also includes the Local Plan element, setting out planning policies and broad locations and sites for development, will also then be submitted to the Secretary of State and have to undergo an Examination in Public to ensure that it is sound.

### ***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 South Hams Living, and daily messages on Twitter and Facebook etc.

A more comprehensive, but not exclusive, list was included in the Compliance Review of the Code of Corporate Governance presented to the Audit Committee meeting (5<sup>th</sup> June 2014). 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:**

The Council has entered into **shared working arrangements with West Devon Borough Council** under which officers' services are shared. These officers have Shared Service Operating Agreements by means of which their services are made available to the partner

authority as well as their employer. *Although work on a number of the governance issues relating to shared services have been completed, there are still some areas to complete and these are reflected in Part 5 of this statement.*

**Article 9 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 an updated **Partnership Policy and Guidance** document in December 2013, which contains guidance to 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.

#### **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 review of effectiveness 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 comments made by the external auditors and other review agencies and inspectorates.

The governance framework is considered by an annual compliance review of the Council's Code of Corporate Governance with the results reported to a meeting of the Audit Committees (5<sup>th</sup> June 2014).

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework, including the system of internal control for 2013/14, is as follows:

<b>Responsibility</b>	<b>Responsible Party</b>
<ul style="list-style-type: none"> <li>To adopt and approve the Constitution and governance arrangements including the form of the Executive.</li> <li>Oversee the effective management of risk by officers of the Council.</li> <li>Maintain a system of internal control.</li> <li>Approve the Annual Governance Statement.</li> </ul>	'The Relevant Body' - South Hams District Council
<ul style="list-style-type: none"> <li>Propose the budget and policy framework to the Council, including the Code of Corporate Governance etc.</li> </ul>	The Executive
<ul style="list-style-type: none"> <li>Review and scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions.</li> </ul>	Scrutiny Panels



Responsibility	Responsible Party
<ul style="list-style-type: none"> <li>• Monitor the effective development and operation of risk management and corporate governance in the Council; and consider:</li> <li>• The annual review of the Constitution and recommend approval to the Council;</li> <li>• The Council's arrangements for corporate governance and to ensure compliance with best practice;</li> <li>• The effectiveness of the 'system of internal audit'. Including an annual self assessment of the effectiveness of the Committee;</li> <li>• 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; and</li> <li>• Oversee the production of the Council's Annual Governance Statement and recommend its adoption to the Council. Evaluate assurance provided and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion.</li> </ul>	<p style="text-align: center;">Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> <li>• Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks.</li> <li>• Provide assurance through routine monitoring of internal controls as an integral part of the risk management process.</li> <li>• Regularly report on risk and internal controls through the management team.</li> </ul>	<p style="text-align: center;">Heads of Service</p>
<ul style="list-style-type: none"> <li>• With the Chief Internal Auditor complete a compliance review of the Code of Corporate Governance and the System of Internal Control and produce the Annual Governance Statement.</li> <li>• These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective.</li> </ul>	<p style="text-align: center;">S.151 and Monitoring Officers</p>
<ul style="list-style-type: none"> <li>• Review the effectiveness of the system of internal audit annually and report results to the Audit Committee.</li> <li>• 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.</li> <li>• Present an 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.</li> </ul>	<p style="text-align: center;">Chief Internal Auditor (as head of internal audit)</p>
<ul style="list-style-type: none"> <li>• Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities.</li> </ul>	<p style="text-align: center;">Risk Management Group External Auditor Other Review Agencies/Inspectorates</p>

We have been advised on the implications of the result of the **review of the effectiveness of the governance framework** by the Audit Committee, and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## **5. Assurances, Conclusion and Significant Governance Issues**

### ***Assurances***

The appropriate assurances have been obtained for the System of Internal Control and this Annual Governance Statement from:

- Compliance Review of the Code of Corporate Governance (Audit Committee – report to meeting of June 2013);
- Effectiveness of the System of Internal Audit (Audit Committee – report to meeting of June 2013);
- Chief Internal Auditor's 'Opinion on the Adequacy of Internal Control' (Audit Committee – report to meeting of June 2013);
- Statutory Officers - S.151 Officer (Head of Finance and Audit) and Monitoring Officer (Council's solicitor);
- Heads of Service (Managers);
- Performance Management;
- Risk Management Group; and
- External Audit and other Inspections and formal reviews.

### ***Conclusion***

Overall the Council's governance arrangements are satisfactory for 2013/14. 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:

***Issues and action plan from the Compliance Review of the Code of Corporate Governance (Meeting of Audit Committee 5<sup>th</sup> June 2014) issues for:***

*Continued overleaf*





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><b>Collaboration Agreement</b> Last year it was reported that the Monitoring Officer was in the process of reviewing an Overarching Agreement between the two Councils, which will also include responsibilities relating to contract liabilities e.g. costs incurred in relation to disputes by one of the two Councils only under a shared contract. A 'Collaboration Agreement' has been drafted and passed to the Leader and Deputy Leader, Director, S.151 Officer and the Council's insurers for comment. The Agreement will be presented to full Council later in the year.</p>	<p>As planned, the Monitoring Officer should complete the production of a Collaboration Agreement, which should also include responsibilities relating to potential contract liabilities, and present the document to full Council.</p>	<p>Monitoring Officer 31st December 2014</p>
<p><b>Onward Delegation</b> The Monitoring Officer was putting in place Onward Delegation documents, setting out those areas delegated by the Heads of Service to the relevant Middle Manager. However, a decision has been taken to delay implementation of these Delegation documents until the roles and responsibilities of officers are clarified post T18 Transformation Programme.</p>	<p>The Monitoring Officer should ensure that post T18 Transformation Programme, Onward Delegation documents, setting out those areas delegated by the Heads of Service to the relevant managers.</p>	<p>Monitoring Officer 31st December 2014</p>

Principle 3: Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Update of Information Access Policy</b> The Council's Information Access Policy was written in 2007 and would benefit from an update.</p>	<p>The Information Access Policy should be reviewed and updated as an aligned policy with West Devon Borough Council, having regard to any impact on it brought about by the T18 Transformation Programme.</p>	<p>Deputy Monitoring Officer 31st December 2014</p>

Issues for 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><b>Anti-Fraud Publicity Leaflet</b> A linked Anti-Fraud/Confidential Reporting leaflet has been put on notice boards around the Council and sent to Town/Parish Councils and Libraries but would benefit from an update as reported to the Audit Committee at the April 2014 meeting in the Audit Commission checklist 'Protecting the Public Purse.</p>	<p>The linked Anti-Fraud/Confidential Reporting leaflet should be reviewed and updated and published and distributed appropriately.</p>	<p>Chief Internal Auditor Monitoring Officer S.151 Officer <i>Implemented</i></p>

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

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

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Financial Uncertainty</b> As Local Authorities experience reductions in funding, although South Hams District Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions and Council Tax freeze initiatives that are expected. A Medium Term Financial Strategy (MTFS) is to be presented to the Executive in September 2014 setting out the current position.</p>	<p>The Council has commenced several initiatives that aim to help us to reduce our costs and meet the enormous challenge of a significant funding gap. These include:</p> <ul style="list-style-type: none"> <li>• T18 Transformation Programme. The programme will deliver new and very different ways of working (see above);</li> <li>• Strategic Asset Review;</li> <li>• Strategic Waste Review; and</li> <li>• Income generation initiatives including a proposal to set up a trading company (report to Council – June 2014)</li> </ul>	<p>Senior Management Team S.151 Officer Ongoing</p>
<p><b>Land Charges</b> In common with 370 other English district and unitary councils, SHDC are subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. Multiple Claims have been submitted. 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 costs are currently estimated to be £87,400 (plus interest and costs) which is substantially lower than the original estimates. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.</p>	<p>The Local Government Association has instructed external solicitors to deal with the matter on behalf of the member Local Authorities. The Council is currently considering a framework for settlement and legal advice received to determine whether this matter can be concluded.</p>	<p>Monitoring Officer Head of Planning, Economy and Community</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Public Sector Internal Audit Standards</b></p> <p>The Chief Internal Auditor carried out a self assessment of the Council's internal audit service against the Public Sector Internal Audit Standards (PSIAS).</p> <p>The results are considered to be satisfactory for the purposes of the System of Internal Control and the AGS, and were reported to the Audit Committee.</p> <p>However, for the Council's internal audit team to be fully compliant, an independent external Quality Assurance assessment is required.</p> <p>Only when this is satisfactorily completed can internal audit reports carry the phrase 'conducted in conformance with PSIAS'.</p>	<p>An independent external Quality Assurance assessment should be arranged to enable internal audit reports to carry the phrase 'conducted in conformance with PSIAS' and for the Council's internal audit team to be fully compliant with the PSIAS.</p>	<p>Chief Internal Auditor 2014/15</p>
<p><b>Internal and External Audit Reports</b></p> <p>Some issues have been identified in audit reports by the Council's external auditor, Grant Thornton, 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>
<p><b>Dartmouth Embankment</b></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>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.</p> <p>The legislation says that 75% of the net harbour dues should be paid to the Council.</p> <p>The current Head of Assets, with the support of the Executive Portfolio holder, is making progress on the issues surrounding the Embankment with the current DHNA Chief Executive, by addressing each area in its own right.</p> <p>Previously when attempts were made to address the Act on a much wider basis, the interpretation of the Act by legal representatives of both sides (Counsel for SHDC) failed to come to a single conclusion.</p> <p>Various meetings have been held with DHNA, who appear to accept that there is some breach of the Act.</p>	<p>Dialogue continues with the Dart Harbour Authority with a view to reaching agreement for some annual contribution to a sinking fund for maintaining the Embankment, and clarifying the management responsibilities for individual areas on the Embankment.</p> <p>However, external legal advice is now being sought to interpret the Dart Harbour Navigation Act 1975 Section 54 and bring this matter to a final conclusion.</p>	<p>Head of Assets 31<sup>st</sup> December 2014</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><b>Business Rate Retention</b></p> <p>The way that Councils receive income from Business Rates changed from 1 April 2013. Business Rates retention was introduced to enable authorities to be able to retain a share of any growth that is generated in Business Rates revenue in their areas.</p> <p>The business rate retention scheme allows authorities to voluntarily form a business rates retention pool. The membership of the Devon pool consists of the eight District Councils in Devon and Devon County Council, Torbay Unitary and Plymouth Unitary, with Plymouth acting as the Lead Authority for the pool.</p> <p>There is no entitlement to safety net funding should a high degree of negative growth be experienced by the pool.</p> <p>As a result there are risks to the Business Rates Pool membership if there is a significant valuation change to a large liability business property in the District.</p> <p>The Valuation Office has provided a list of outstanding appeals for the Council, and these have been taken account of when completing the government return NDR1 for 2014/15 (section relating to back dated appeals).</p> <p>The Governance arrangements within the Pooling agreement state that the Governing Board will meet by no later than 30 September to consider the continuation or dissolution of the pool.</p> <p>The meeting of the Board is undertaken as part of the agenda of the Devon Local Government Steering Group meeting, with two of the meetings each year including pool business.</p> <p>Pool members should give notice no later than 30 September to pooling partners of their intention to leave the pool.</p>	<p>The Council meeting of December 2014 resolved that the Section 151 Officer (the Head of Finance and Audit), in consultation with the Leader, Deputy Leader and Senior Management Team, to make a decision for the Council on remaining in the Devonwide Business Rates Pool for the financial year 2014/15, in the light of the announcements due at the end of December 2013 regarding the finance settlement.</p> <p>The Council's S.151 Officer is making the following recommendations to the July Steering Group :-</p> <ul style="list-style-type: none"> <li>• For South Hams District Council to withdraw from the Pool for 2015-16 and;</li> <li>• For the Devon Business Rates Pool to be re-constituted for 2015-16 with all of the current pooling partners including West Devon, but not South Hams. The remaining pool members will re-apply by 31st October 2014 to DCLG to become a new pool for 2015-16 in their own right.</li> </ul>	<p>S.151 Officer 2014/15</p> <p>S.151 Officer 2015/16</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: Cllr R. J. Tucker  
Leading Member,  
On behalf of South Hams District Council**

**Signed: Alan Robinson  
Executive Director and Head of Paid Service,  
On behalf of South Hams District Council**

**This page is intentionally left blank**

AGENDA  
ITEM

**6**

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

**6**

<b>NAME OF COMMITTEE</b>	Audit Committee
<b>DATE</b>	18 September 2014
<b>REPORT TITLE</b>	<b>ANNUAL STATEMENT OF ACCOUNTS 2013/14</b>
<b>Report of</b>	Head of Finance and Audit
<b>WARDS AFFECTED</b>	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 2013/14. **Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the 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 2014.

### 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:

Lisa Buckle, Head of Finance and Audit  
Email: [michael.tithcott@swdevon.gov.uk](mailto:michael.tithcott@swdevon.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 deficit on the General Fund of £127,000 is essentially a break-even position and represents only 0.2% of the Council's gross turnover of £63 million. The main differences from budget are shown in the Explanatory Forward to 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 around £4million in 2013/14 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 31 July 2014. 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 2014 by the Council's external auditors, Grant Thornton UK LLP. Post audit changes have been incorporated within the SOA in line with the recommendations contained within their "Audit Findings 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

<b>Corporate priorities engaged:</b>	Effective financial management underpins the achievement of all priorities
<b>Statutory powers:</b>	Section 151 Local Government Act 1972 Section 21 (12) Local Government Act 2003 Accounts and Audit (England) Regulations 2011 SI 2011 No 817
<b>Considerations of equality and human rights:</b>	None directly arising from this report
<b>Biodiversity considerations:</b>	None directly arising from this report
<b>Sustainability considerations:</b>	None directly arising from this report
<b>Crime and disorder implications:</b>	None directly arising from this report
<b>Background papers:</b>	Corporate Finance working papers
<b>Appendices attached:</b>	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 2013/14</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 takes in account any significant issues when developing the Council's Medium Term Financial Strategy.	Head of Finance & Audit/ Executive

Direction of travel symbols ↓ ↑ ↔

**This page is intentionally left blank**

**LETTER OF REPRESENTATION**

Grant Thornton UK LLP

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street,  
Bristol  
BS1 6FT

18 September 2014

Dear Sirs

**South Hams District Council**

**Financial Statements for the year ended 31 March 2014**

This representation letter is provided in connection with the audit of the financial statements of South Hams District Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- vi We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vii Except as stated in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- x All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

## **Information Provided**

- xiv We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## **Annual Governance Statement**

- xxiii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 18 September 2014

**Signed on behalf of the Council**

Name: Councillor J T Pennington

Position: Chairman of the Audit Committee

Date: 18 September 2014

Name: Mrs Lisa Buckle

Position: Head of Finance and Audit (S151 Officer)

Date: 18 September 2014



# South Hams District Council

## Statement of Accounts

2013/2014



**South Hams  
District Council**

# Appendix B

## Contents

	<i>Page</i>
1. Explanatory Foreword	3-10
• Introduction	
• Review of year	
• Financial needs and resources	
• Looking forward to the future	
• Further information	
2. Core Financial Statements	11-15
• A. Movement in Reserves Statement	
• B. Comprehensive Income & Expenditure Statement	
• C. Balance Sheet	
• D. Cash flow Statement	
3. Notes to the Financial Statements	16-77
4. Collection Fund	78-80
5. Statement of Responsibilities/ Approval of the Accounts	81-82
6. Auditors' Report	83-85
7. Glossary of Terms	86-88

***Section 1***

***Explanatory Foreword***

# Appendix B

## 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 2013/14 and how these compare with actual income and expenditure are set out below:

	<b>Estimate</b>	<b>Actual</b>	<b>Difference</b>
	<b>£000</b>	<b>£000</b>	<b>Cost/(Saving)</b>
			<b>£000</b>
Cost of services (after allowing for income and reserve contributions)	9,494	9,627	133
Parish precepts	1,544	1,544	-
Interest and Investment income	(190)	(169)	21
<b>Amount to be met from Government grants and taxation</b>	<b>10,848</b>	<b>11,002</b>	<b>154</b>
<i>Financed from:</i>			
Formula Grant	(4,217)	(4,244)	(27)
Council tax	(6,601)	(6,601)	-
Surplus on collection fund	(30)	(30)	-
<b>DEFICIT</b>	<b>-</b>	<b>127</b>	<b>127</b>

4. The deficit on the General Fund of £127,000 is essentially a break-even position and represents only 0.2% of the Council's gross turnover of £63 million.
5. This was achieved despite a very challenging year for the management of the Council's finances following the introduction of the scheme for

## Appendix B

the localisation of business rates by the Government. The collection of income from business rates now has a direct impact on the Council's overall financial performance.

6. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value. The Council had some significant appeals outstanding at the year end. No provision has been made for business rates appeals not yet received as these items are not deemed to be significant.
7. Earlier in the year, the Council had predicted that it would achieve a surplus on business rates, but the year-end position was not as favourable as was estimated. Following external advice, the Council was obliged to increase its provision for appeals that it had included within its accounts.
8. The Council also experienced a reduction in income received from the Dartmouth Lower Ferry arising from its closure until the 20th May 2013 (due to essential slipway maintenance works). In addition, income from Car Parks did not reach its target during the second half of the year due to adverse weather conditions.
9. A summary of the main differences from budget is provided below:

## Appendix B

<b>ANALYSIS OF VARIATIONS</b>	<b>£000</b>
<b>Increases in expenditure/reduction in income</b>	
Dartmouth Lower Ferry - net shortfall in income, Ferry was out of action until 20 <sup>th</sup> May 2013 for essential slipway maintenance (Minute E.15/12 refers)	288
Car parks – mainly reduction in income	195
Staff Salaries – vacancy provision and target for additional Shared Services savings not met	155
Transport Fleet – mainly overspend on R&M due to ageing fleet	92
Staff Salaries – net of saving on staff training	66
Leisure Centres – contractor claim for utilities additional inflation	64
Planning – external legal fees and other specialist advice	40
Corporate Management – provision for tax liability net of reserves	20
Emergency Procedures – flood work undertaken not covered by Bellwin Scheme	19
Employment Estates – loss of empty property relief on voids	16
Community Parks & Open Spaces – net loss of income mainly due to the cessation of DCC Highways grass cutting contract	10
Investment interest – reduced investment rates	10
Pannier Markets – reduced activity	10
<b>Reductions in expenditure/additional income</b>	
Housing Benefit – mainly recoveries of overpayments (in 2013/14 £22m was paid in Housing Benefit)	(222)
Business Rates – change in accounting arrangements for discretionary rate relief	(161)
Planning Applications – additional income	(111)
Government Grants – return of top sliced RSG and receipt of New Burdens Grants	(92)
Heritable Bank – reduction in impairment value following additional repayments	(80)
Private Sector Housing Renewal – care and repair scheme (saving built into 2014/15 budget)	(40)
Elections – surplus of income over expenditure	(34)
Democratic Representation – external fees re. Monitoring Officer etc	(33)
Land charges – additional income	(33)
Community Parks & Open Spaces – rent reviews for boatman kiosks	(30)
Beach & Water safety – mainly savings on contracts for equipment inspections and laying of safety buoys	(14)
Corporate Management – saving on District Magazine	(8)
<b>TOTAL DEFICIT</b>	<b>127</b>

## Shared Services

10. The arrangements for shared services continue to be a crucial component of the Council's Financial Strategy. The Council continues to share staff with West Devon Borough Council, which has now yielded over £6 million in savings across the two Councils, with each Council generating ongoing savings of about £700,000 every year.
11. Both South Hams and West Devon have been bold in challenging the traditional local government model and have always been at the forefront of radical change. Indeed the Councils have recently taken their next step and abolished the role of Chief Executive, saving approximately 1% of council tax for each council per year, by moving to an Executive Director model.

## Pension Liability

12. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.
13. The actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2014 of £32.7million. This compares to £32.1million as at 31 March 2013. The deficit is derived by calculating the pension assets and liabilities at 31 March 2014. See Note 33 for further information.

## Change in accounting Policies

14. The accounting framework for employee retirement benefits has been revised with remodelling of elements of the net pension liability and definitions contained therein following the Code's adoption of the amendments to IAS 19 (2011 amendments). The test for the recognition of termination benefits has been altered from being demonstrably committed to terminating the employment of employees or to providing termination benefits as a result of an offer of voluntary redundancy, to now only recognising at the earliest date at which the Authority can no longer withdraw the offer of those benefits or the Authority makes a provision for the costs of restructuring that will involve payment of termination benefits.

## Icelandic Banks

15. At the 31 March 2014 the Council had £72,368 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 an

## Appendix B

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.

16. 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). Both ratings indicated low risk and were within the deposit policy approved by the Council.
17. Administrators have kept the bank trading and are winding down the business over a period of years. As at the end of September 2013, the Administrators had paid fourteen dividends amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

### Capital spending

18. The Council spent £4.0m on capital projects. The main areas of expenditure were as follows:
  - replacement fish quay (£1.5m)
  - house renovation grants (£0.5m)
  - replacement ferry slipway (£0.3m)
  - affordable housing (£0.3m)
  - capital grants (£0.3m)
  - leisure centre refurbishments (£0.3m)
  - replacement pontoons (£0.3m)

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 29).

### Issue of accounts

19. The Head of Finance and Audit authorised the Statement of Accounts 2013/14 for issue on the 18<sup>th</sup> September 2014. Events taking place after this date are not reflected in the financial statements or notes.

### FINANCIAL NEEDS AND RESOURCES

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



## Appendix B

21. Revenue reserves have increased by £1.2m from the preceding year and stand at £10.4m at 31 March 2014. Revenue reserves may be used to finance capital or revenue spending plans. The General Fund Balance (un-earmarked reserve) stands at £1.7m.
22. Capital Reserves are represented on the Balance Sheet by capital receipts and capital contributions unapplied. The balance at 31 March 2014 amounts to £4.6m compared to £5.5m at the end of the previous year.

### LOOKING FORWARD TO THE FUTURE

23. 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, focusing not only on one year, but also on the longer term. The Council's Medium Term Financial Strategy will be considered by the Executive at its September 2014 meeting.

### Transformation Programme (T18)

24. The Council continues to face significant reductions in Central Government funding. Because of the unprecedented scale of financial challenges being faced in the next few years, the Council has embarked on a Transformation Programme 2018 (T18).
25. T18 is viewed as the primary driver to achieve the savings required over the next few years. This is a joint transformation programme with West Devon Borough Council, with whom the Council has been sharing services with since 2007. The Council is preparing to provide its services in an entirely new way by becoming more flexible and customer focused using the latest technology.
26. Services will be redesigned around our customers and communities and as a consequence we will remove all departmental silos. This will involve re-engineering over 400 business processes and sharing all of our corporate services and information technology systems. The main phase of the programme will be delivered during the spring of 2015.
27. Self service providing 24/7 access will be extended significantly enabling customers to access service delivery not just information. Many of our on line transactions will become fully automated, improving response times whilst reducing staff input.
28. Both Councils have now made the decision to proceed with the programme (October 2013) and the major financial implication the

## Appendix B

Council has agreed to, is to “Approve an investment budget of £2.95 million for the T18 Programme (SHDC’s share of the overall budget of £4.85 million), to deliver annual recurring revenue savings of £2.5 million (SHDC’s share of the savings of £3.8 million)”. The payback period for the Programme is 2 years.

### Localisation of Business Rates

29. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the Business Rates generated in their area, with effect from 1 April 2013.
30. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline. However, the BRRS allows Authorities to voluntarily form a ‘pool’. Pooling mitigates each Authority’s exposure to Business Rate income volatility as the risks are spread over a larger pool. In 2013/2014, South Hams District Council agreed to be part of a Devonwide pooling arrangement and the pooling gain achieved in the first year equated to £61,000.

### FURTHER INFORMATION

31. 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 2013/14	Total Authority Reserves £000 2012/13 Restated*
<b>Balance at 31 March carried forward</b>	<b>2,534</b>	<b>6,655</b>	<b>5,302</b>	<b>207</b>	<b>14,698</b>	<b>39,430</b>	<b>54,128</b>	<b>48,382</b>
<b>Movement in Reserves during Year</b>								
Surplus or (deficit) on provision of Services	(1,799)	-	-	-	(1,799)	-	(1,799)	(1,724)
Other Comprehensive Income and Expenditure	-	-	-	-	-	2,105	2,105	7,470
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,799)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,799)</b>	<b>2,105</b>	<b>306</b>	<b>5,746</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	2,979	-	(805)	(89)	2,085	(2,085)	-	-
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>1,180</b>	<b>-</b>	<b>(805)</b>	<b>(89)</b>	<b>286</b>	<b>20</b>	<b>306</b>	<b>5,746</b>
Transfers to/from Earmarked Reserves (Note 5)	(2,007)	2,007	-	-	-	-	-	-
<b>Increase/ (Decrease) in Year</b>	<b>(827)</b>	<b>2,007</b>	<b>(805)</b>	<b>(89)</b>	<b>286</b>	<b>20</b>	<b>306</b>	<b>5,746</b>
<b>Balance at 31 March carried forward</b>	<b>1,707</b>	<b>8,662</b>	<b>4,497</b>	<b>118</b>	<b>14,984</b>	<b>39,450</b>	<b>54,434</b>	<b>54,128</b>

\*See explanatory foreword – revisions to IAS19.

## 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.

2012/13 – restated*				2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service Division	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
8,152	(7,408)	744	Central services to the public	2,128	(1,354)	774
2,889	(690)	2,199	Cultural & Related	2,701	(736)	1,965
7,898	(2,072)	5,826	Environmental	8,419	(2,264)	6,155
3,077	(4,743)	(1,666)	Highways and transport	3,435	(4,839)	(1,404)
24,986	(23,639)	1,347	Housing	25,100	(23,592)	1,508
3,849	(2,699)	1,150	Planning & Development	4,085	(2,897)	1,188
1,553	(57)	1,496	Corporate and democratic core	1,799	(163)	1,636
89	(7)	82	Non distributed costs	436	(6)	430
<b>52,493</b>	<b>(41,315)</b>	<b>11,178</b>	<b>Cost of Services</b>	<b>48,103</b>	<b>(35,851)</b>	<b>12,252</b>
1,623	(18)	1,605	Other operating expenditure (Note 6)	1,585	(78)	1,507
1,314	(644)	670	Financing and investment income and expenditure (Note 7)	1,346	(646)	700
-	(11,729)	(11,729)	Taxation and non-specific grant income (Note 8)	12,069	(24,729)	(12,660)
<b>55,430</b>	<b>(53,706)</b>	<b>1,724</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>63,103</b>	<b>(61,304)</b>	<b>1,799</b>
		(8,578)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(632)
		1,108	Remeasurements of the net defined benefit liability			(1,473)
		(7,470)	<b>Other Comprehensive Income and Expenditure</b>			<b>(2,105)</b>
		(5,746)	<b>Total Comprehensive Income and Expenditure</b>			<b>(306)</b>

\*See explanatory foreword – revisions to IAS19.

## SECTION 2C. BALANCE SHEET

31 March 2013 £000		Notes	31 March 2014 £000
70,928	Property, Plant & Equipment	9	72,645
307	Investment Property		337
145	Intangible Assets	10	93
49	Long Term Debtors	13	9
<b>71,429</b>	<b>Long Term Assets</b>		<b>73,084</b>
13,118	Short Term Investments	11	15,000
98	- accrued interest	11	36
88	Inventories	12	93
4,601	Short Term Debtors	13	5,606
6,048	Cash and Cash Equivalents	14	2,665
9	- accrued interest		3
<b>23,962</b>	<b>Current Assets</b>		<b>23,403</b>
(5,620)	Short Term Creditors	15	(5,547)
(116)	Short Term Revenue Grants in Advance	27	(211)
(18)	Provisions		(50)
<b>(5,754)</b>	<b>Current Liabilities</b>		<b>(5,808)</b>
(47)	Long Term Creditors	15	-
(3,274)	Long Term Revenue Grants in Advance - Section 106 Deposits	27	(3,405)
(32,073)	Pensions Liability	33	(32,704)
(115)	Capital Grants - Receipts in Advance	27	(136)
<b>(35,509)</b>	<b>Long Term Liabilities</b>		<b>(36,245)</b>
<b>54,128</b>	<b>Net Assets</b>		<b>54,434</b>
14,698	Usable Reserves	16	14,984
39,430	Unusable Reserves	17	39,450
<b>54,128</b>	<b>Total Reserves</b>		<b>54,434</b>

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

*The unaudited accounts were issued on 30 June 2014. The audited accounts were issued on 18 September 2014.*

## 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.

<b>2012/13*</b> <b>£000</b>		<b>2013/14</b> <b>£000</b>
<b>1,724</b>	<b>Net (surplus) or deficit on the provision of services</b>	<b>1,799</b>
(5,905)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 18 )	(2,044)
(4,480)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 19)	335
(163)	Interest received	(237)
<b>(8,824)</b>	<b>Net cash outflows/ (inflow) from Operating Activities</b>	<b>(147)</b>
(932)	Net increase/ ( decrease) in Investing Activities (Note 20)	3,302
5,900	Net cash outflow/ (inflow) from Financing Activities (Note 21)	228
<b>(3,856)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>3,383</b>
2,192	Cash and cash equivalents at the beginning of the reporting period	6,048
6,048	Cash and cash equivalents at the end of the reporting period (Note 14)	2,665

\*See explanatory foreword – revisions to IAS19.

***Section 3***

***Notes to the***

***Financial Statements***



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

### **CONTENTS**

1. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
2. Material Items of Income and Expense
3. Events After the Balance Sheet Date
4. Adjustments between Accounting Basis and Funding Basis under Regulations
5. Transfers to/from Earmarked Reserves
6. Other Operating Expenditure
7. Financing and Investment Income and Expenditure
8. Taxation and Non-Specific Grant Income
9. Property, Plant and Equipment
10. Intangible Assets
11. Financial Instruments
12. Inventories
13. Debtors
14. Cash and Cash Equivalents
15. Creditors
16. Usable Reserves
17. Unusable Reserves
18. Cash Flow – Adjustments for non-cash movements
19. Cash Flow – Adjustments for Investing & Financing Activities
20. Cash Flow - Investing Activities
21. Cash Flow - Financing Activities
22. Amounts Reported for Resource Allocation Decisions
23. Trading Operations – Building Control
24. Members' Allowances
25. Officers' Remuneration
26. External Audit Costs
27. Grant Income
28. Related Parties
29. Capital Expenditure and Capital Financing
30. Leases
31. Impairment Losses
32. Exit Packages
33. Defined Benefit Pension Schemes
34. Contingent Liabilities
35. Nature and Extent of Risks Arising from Financial Instruments
36. Accounting Policies
37. Accounting Standards that have been Issued but not yet Adopted
38. Critical Judgements in Applying Accounting Policies

## SECTION 3. NOTES TO THE ACCOUNTS

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

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

The items in the Authority's Balance Sheet at 31 March 2014 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives which are estimated annually.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to change by 1 year across all assets, this would have a £35,000 impact on the Council's finances.
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 £2.1 million.</p> <p>However, the assumptions interact in complex ways. For example, in 2013/14, the Authority's actuaries advised that the pension liability had decreased by £4.4million as a result of estimates being corrected as a result of experience and increased by £2.1million attributable to the updating of assumptions.</p> <p>Please refer to Note 33 for further information about the assumptions used by the actuaries.</p>
Arrears	The Authority makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. For example at 31 March 2014, the Authority had a balance of Sundry Debtors of £1.08 million. A review of significant balances suggested that an impairment for doubtful debts of 4.7% (£51,000) was appropriate.	The impairment for doubtful debts is reviewed annually in order to respond to changes in collection rates. If Council Tax arrears were to change by 1%, this would have an impact of £2,000 on the Council's finances.

### 2. MATERIAL ITEMS OF INCOME AND EXPENSE / PRIOR PERIOD ADJUSTMENTS

**Exceptional items** - there were no such items in 2013/14 or 2012/13.

### SECTION 3. NOTES TO THE ACCOUNTS

**Prior period adjustments** - the Code includes the revisions as a result of the June 2011 amendments to IAS 19 Employee Benefits. There are no prior period adjustments in relation to the change in recognition point for termination benefits however the accounting framework for retirement benefits has been revised to reflect amended definitions, updated terminology, classification, recognition, measurement and disclosure requirements. There is no impact on the pension liability in the Balance Sheet.

#### 3. EVENTS AFTER THE BALANCE SHEET DATE

The draft Statement of Accounts (SOA) for 2013/14 was certified by the Head of Finance and Audit on 30 June 2014. The SOA were then reviewed by the Audit Committee on 31 July 2014 and the audited accounts were authorised for issue on 18 September 2014. This is also the date up to which events after the Balance Sheet date have been considered. There are no events which took place after 31 March 2014 which require disclosure.

#### 4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2013/14	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account (CAA):</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</b>				
Charges for depreciation and impairment of non-current assets	2,017			(2,017)
Revaluation losses/(gains) on Property Plant and Equipment	(462)			462
Movements in the market value of Investment Properties	(31)			31
Amortisation of intangible assets	58			(58)
Capital grants and contributions applied	(1,460)			1,460
Revenue expenditure funded from capital under statute	1,205			(1,205)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	190			(190)
<b>Insertion of items not debited or credited to the CIES:</b>				
Capital expenditure charged against the General Fund	(1,036)			1,036
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Application of grants to capital financing transferred to the CAA			(89)	89

### SECTION 3. NOTES TO THE ACCOUNTS

2013/14	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES.	(260)	260		-
Transfer of unattached capital receipts	(386)	386		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,455)		1,455
Repayment of mortgage and parish loans		4		(4)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 33)	3,751			(3,751)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,647)			1,647
<b>Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:</b>				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	(62)			62
<b>Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:</b>				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	1,090			(1,090)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	12			(12)
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2013/14</b>	<b>2,979</b>	<b>(805)</b>	<b>(89)</b>	<b>(2,085)</b>

<b>2012/13 – restated *</b>				
<b>Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2012/13</b>	<b>1,842</b>	<b>(332)</b>	<b>(14)</b>	<b>(1,496)</b>

\* See explanatory foreword – revisions to IAS19.

## 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 2013/14.

	Balance at 31 March 2013 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2014 £000
<b>EARMARKED RESERVES</b>				
<b>General Fund</b>				
Affordable Housing	413	(323)	12	102
Strategic Issues	849	(470)		379
Community Parks and Open Spaces	93	(5)	17	105
Community Wellbeing	32		12	44
Pension Fund Strain	-	(122)	122	-
Repairs and Maintenance	428	(141)	56	343
Members Sustainable Community	34		14	48
Land and Development	213	(33)	16	196
Ferry Repairs and Renewals	114	(25)	87	176
Economic Initiatives	164	(52)		112
Vehicles and Plant Renewals	694		542	1,236
Pay and Display Equipment	17	(19)	21	19
On-Street Parking	44			44
Print Equipment	73		3	76
ICT Development	449	(99)		350
Sustainable Waste Management	100	(28)		72
District Elections	40		18	58
Beach Safety	17			17
Planning Policy & Major Developments	932	(261)		671
Building Control	138	(16)	65	187
Section 106 agreements	58	(21)		37
Revenue Grants	320	(47)	83	356
Capital Programme	924	(129)	182	977
New Homes Bonus	-	(328)	1,026	698
Rural Services Support Funding	-		37	37
Renovation Grant Reserve	-		37	37
Business Rates Retention	-		1,023	1,023
T18 Investment Reserve	-	(75)	1,010	935
<b>Sub Total</b>	<b>6,146</b>	<b>(2,194)</b>	<b>4,383</b>	<b>8,335</b>
<b>Specific Reserves – Salcombe Harbour</b>				
Pontoons	132	(150)	51	33
Harbour Renewals	134	(9)	27	152
General Reserve	238	(195)	94	137
<b>Sub Total</b>	<b>504</b>	<b>(354)</b>	<b>172</b>	<b>322</b>
<b>Trust &amp; Bequest</b>	<b>5</b>			<b>5</b>
<b>TOTAL EARMARKED REVENUE RESERVES</b>	<b>6,655</b>	<b>(2,548)</b>	<b>4,555</b>	<b>8,662</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 6. OTHER OPERATING EXPENDITURE

2012/13* £000		2013/14 £000
1,590	Parish council precepts	1,544
(18)	(Gains)/losses on the disposal of non-current assets	(78)
33	Pension administration expenses	41
<b>1,605</b>	<b>Total</b>	<b>1,507</b>

### 7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2012/13* £000		2013/14 £000
-	Interest payable and similar charges	2
(229)	Interest receivable and similar income	(169)
(404)	Other investment income	(386)
(11)	Investment (gains)/ losses	(91)
1,298	Net interest on the net defined benefit liability	1,344
16	Investment properties	-
<b>670</b>	<b>Total</b>	<b>700</b>

\* 2012/13 restated. See explanatory foreword – revisions to IAS19.

### 8. TAXATION AND NON SPECIFIC GRANT INCOME

2012/13 £000		2013/14 £000
	Council Tax	
(6,860)	• Income	(6,601)
(52)	• Collection Fund adjustment	(62)
(40)	• Collection Fund - distribution of surplus	(30)
-	• Support grant to parishes	145
	Business Rates	
(3,705)	• Income	(12,628)
-	• Tariff	10,834
-	• Pooling administration costs	1
-	• Pooling gain	(61)
-	• Safety net payment	(142)
-	• Transfer of Collection Fund deficit	1,090
	Non ring - fenced Government grants :	
-	• Small Business Rate Relief Grant	(713)
(72)	• Revenue Support Grant	(2,560)
(826)	• New Homes Grant	(1,026)
(86)	• Local Services Support Grant	-
-	• Council Tax Support Transition Grant	(17)
-	• Rural Services Support Grant	(37)
(88)	Capital grants and contributions	(853)
<b>(11,729)</b>	<b>Total</b>	<b>(12,660)</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 9. PROPERTY, PLANT AND EQUIPMENT

#### Movements in 2013/14:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>						
<b>At 1 April 2013</b>	<b>63,534</b>	<b>8,885</b>	<b>4,677</b>	<b>759</b>	<b>1,483</b>	<b>79,338</b>
Additions	564	70	295	-	1,900	2,829
revaluation increases/ (decreases) recognised in the Revaluation Reserve	(71)			(22)		(93)
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	316					316
derecognition – disposals	(227)	(225)	(16)			(468)
<b>At 31 March 2014</b>	<b>64,116</b>	<b>8,730</b>	<b>4,956</b>	<b>737</b>	<b>3,383</b>	<b>81,922</b>
<b>Accumulated Depreciation and Impairment at 1 April 2013</b>	<b>2,208</b>	<b>4,571</b>	<b>1,628</b>	<b>-</b>	<b>3</b>	<b>8,410</b>
charge for 2013/14	949	869	199	-	-	2,017
depreciation written out to the Revaluation Reserve	(703)			(22)		(725)
depreciation written out to the Surplus/Deficit on the Provision of Services	(169)		(20)			(189)
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services			20	22		42
derecognition-disposals	(43)	(222)	(13)			(278)
<b>At 31 March 2014</b>	<b>2,242</b>	<b>5,218</b>	<b>1,814</b>	<b>-</b>	<b>3</b>	<b>9,277</b>
<b>Balance Sheet amount at 31 March 2014</b>	<b>61,874</b>	<b>3,512</b>	<b>3,142</b>	<b>737</b>	<b>3,380</b>	<b>72,645</b>
<b>Balance Sheet amount at 31 March 2013</b>	<b>61,326</b>	<b>4,314</b>	<b>3,049</b>	<b>759</b>	<b>1,480</b>	<b>70,928</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Comparative Movements in 2012/13:

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>						
<b>At 1 April 2012</b>	<b>54,327</b>	<b>8,586</b>	<b>3,874</b>	<b>722</b>	<b>1,445</b>	<b>68,954</b>
additions	115	332	29	37	1,201	1,714
revaluation increases/ (decreases) recognised in the Revaluation Reserve	8,335					8,335
revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	721					721
derecognition – disposals		(386)				(386)
other movements in cost or valuation	36	353	774		(1,163)	-
<b>At 31 March 2013</b>	<b>63,534</b>	<b>8,885</b>	<b>4,677</b>	<b>759</b>	<b>1,483</b>	<b>79,338</b>
<b>Accumulated Depreciation and Impairment at 1 April 2012</b>	<b>1,604</b>	<b>4,079</b>	<b>1,415</b>	<b>-</b>	<b>-</b>	<b>7,098</b>
charge for 2012/13	870	864	199			1,933
depreciation written out to the Revaluation Reserve	(243)					(243)
depreciation written out to the Surplus/Deficit on the Provision of Services	(23)		(2)			(25)
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services			16		3	19
derecognition-disposals		(372)				(372)
<b>At 31 March 2013</b>	<b>2,208</b>	<b>4,571</b>	<b>1,628</b>	<b>-</b>	<b>3</b>	<b>8,410</b>
<b>Balance Sheet amount at 31 March 2013</b>	<b>61,326</b>	<b>4,314</b>	<b>3,049</b>	<b>759</b>	<b>1,480</b>	<b>70,928</b>
<b>Balance Sheet amount at 31 March 2012</b>	<b>52,723</b>	<b>4,507</b>	<b>2,459</b>	<b>722</b>	<b>1,445</b>	<b>61,856</b>



### 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

There were no significant contracts for future capital expenditure at 31 March 2014.

#### 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 in Note 36.

	<b>Land and buildings</b>	<b>Vehicles, plant furniture &amp; equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Valued at historical cost</b>	-	3,512	3,512
<b>Valued at current value in:</b>			
2013/2014	23,184		23,184
2012/2013	24,049		24,049
2011/2012	9,660		9,660
2010/2011	3,172		3,172
2009/2010	1,809		1,809
<b>Total</b>	<b>61,874</b>	<b>3,512</b>	<b>65,386</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 10. 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 life 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 £58,000 charged to revenue in 2013/14 was charged to the cost centres holding the assets.

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

	2012/13 £000	2013/14 £000
<b>Gross carrying amount</b>	<b>330</b>	<b>432</b>
Accumulated amortisation	(215)	(287)
<b>Net carrying amount at start of year</b>	<b>115</b>	<b>145</b>
Purchases	102	6
Amortisation for the period	(72)	(58)
<b>Net carrying amount at end of year</b>	<b>145</b>	<b>93</b>

#### Comprising:

<b>Gross carrying amount</b>	<b>432</b>	<b>438</b>
Accumulated amortisation	(287)	(345)
<b>Net carrying amount at end of year</b>	<b>145</b>	<b>93</b>

### 11. 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

### SECTION 3. NOTES TO THE ACCOUNTS

#### Assets

- bank deposits
- trade receivables
- loans receivables
- investments

#### Derivatives

- swaps
- forwards
- options

The carrying amount and fair values for investments at 31 March 2014 are shown in the following table:

<b>Investment Type</b>	<b>Carrying Amount (net of interest)</b>	<b>Interest due at year end</b>	<b>Gross carrying Amount</b>	<b>Fair Value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Short term</b>	15,000	36	15,036	15,047

#### Heritable Bank

At the 31 March 2014 the Council had £72,368 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008. At the time the deposit was placed the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits). Both ratings were within the deposit policy approved by the Council and indicate low risk.

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators had paid fourteen dividends at the end of September 2013 amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

In view of the ongoing legal dispute and uncertainty surrounding the Council's ability to recover the remaining deposit of £72,368, it is considered appropriate to impair the Balance Sheet by the same amount.

## 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 2013 £000	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000
<b>Investments</b>				
Loans and receivables (principal)	-	-	13,118	15,000
Loans and receivables (accrued interest)	-	-	98	36
<b>Total Investments</b>	-	-	<b>13,216</b>	<b>15,036</b>
<b>Debtors</b>				
Loans and receivables	49	9	-	-
Financial assets carried at contract amount	-	-	1,347	2,535
<b>Total Debtors</b>	<b>49</b>	<b>9</b>	<b>1,347</b>	<b>2,535</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	(47)	-	-	-
Financial liabilities carried at contract amount			(2,364)	(2,795)
<b>Total Creditors</b>	<b>(47)</b>	<b>-</b>	<b>(2,364)</b>	<b>(2,795)</b>

### Income, Expense, Gains & Losses

	Financial Assets 2012/13			Financial Assets 2013/14		
	Investments £000	Investments at Fair Value through I&E £000	Total £000	Investments £000	Investments at Fair Value through I&E £000	Total £000
Interest income	(235)	-	(235)	(178)		(178)
Interest income accrued on impaired financial assets	7		7	11		11
Increases in fair value	(11)		(11)	(91)		(91)
<b>Total income in Surplus or deficit on the provision of Services</b>	<b>(239)</b>	<b>-</b>	<b>(239)</b>	<b>(258)</b>	<b>-</b>	<b>(258)</b>
<b>Net (gain)/loss for the year</b>	<b>(239)</b>	<b>-</b>	<b>(239)</b>	<b>(258)</b>	<b>-</b>	<b>(258)</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 12. INVENTORIES

<b>TOTAL 2012/13 £000</b>		<b>Depot 2013/14 £000</b>	<b>Printing Materials 2013/14 £000</b>	<b>TOTAL 2013/14 £000</b>
<b>138</b>	<b>Balance at 1 April</b>	<b>76</b>	<b>12</b>	<b>88</b>
<b>600</b>	Purchases	648	17	<b>665</b>
<b>(650)</b>	Recognised as an expense in the year	(642)	(18)	<b>(660)</b>
<b>88</b>	<b>Balance at 31 March</b>	<b>82</b>	<b>11</b>	<b>93</b>

### 13. DEBTORS

<b>31.3.2013 £000</b>		<b>31.3.2014 £000</b>
	<b>Short Term</b>	
23	HMRC	133
352	Other Government departments	195
572	Local authorities	865
1,770	Business Rates Debtor	531
89	Council tax payers	161
1,795	Other entities & individuals	3,721
<b>4,601</b>	<b>Total</b>	<b>5,606</b>
	<b>Long Term</b>	
	Strain payments payable from West Devon Borough Council	-
36		
13	Parish loans	9
<b>49</b>	<b>Total</b>	<b>9</b>

### 14. CASH AND CASH EQUIVALENTS

<b>31.3.2013 £000</b>		<b>31.3.2014 £000</b>
58	Cash held by the Authority	(285)
5,000	Bank current accounts	-
990	Money Market Funds	2,950
<b>6,048</b>	<b>Total Cash and Cash Equivalents</b>	<b>2,665</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 15. CREDITORS

31.3.2013 £000		31.3.2014 £000
	<b>Short Term</b>	
(217)	HMRC	(204)
(1,537)	Other Government departments	(768)
(503)	Other local authorities	(535)
(2,329)	Sundry creditors	(3,046)
(139)	Employee benefits	(151)
(53)	Council taxpayers	(56)
(842)	Council taxpayers – Preceptors a/c	(787)
<b>(5,620)</b>	<b>Total</b>	<b>(5,547)</b>
	<b>Long Term</b>	
(47)	Strain payments payable to West Devon Borough Council	-

### 16. 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 set aside monies for specific purposes e.g. vehicle & plant replacement, the funding of strategic issues etc.

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

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

### 17. UNUSABLE RESERVES

31.3.2013 £000		31.3.2014 £000
23,099	Revaluation Reserve	23,526
48,392	Capital Adjustment Account	49,656
(32,073)	Pensions Reserve	(32,704)
151	Council Tax Collection Fund Adjustment Account	213
-	Business Rates Collection Fund Adjustment Account	(1,090)
(139)	Accumulated Absences Account	(151)
<b>39,430</b>	<b>Total Unusable Reserves</b>	<b>39,450</b>

## 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.

31.3.2013 £000		31.3.2014 £000	31.3.2014 £000
14,710	<b>Balance at 1 April</b>		23,099
9,962	Upward revaluation of assets	1,460	
(1,384)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(828)	
8,578	<b>Surplus or (deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		632
(189)	Difference between fair value depreciation and historical cost depreciation	(205)	
(189)	<b>Amount written off to the Capital Adjustment Account</b>		(205)
23,099	<b>Balance at 31 March</b>		23,526

## 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.

2012/13 £000		2013/14 £000	2013/14 £000
47,700	<b>Balance at 1 April</b>		48,392
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(1,933)	▪ Charges for depreciation of non-current assets	(2,017)	
727	▪ Revaluation losses on Property, Plant and Equipment	462	
(15)	▪ Revaluation gains/(losses) on Investment Properties	31	
(72)	▪ Amortisation of intangible assets	(58)	
-	▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,205)	
(13)	▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(190)	
<b>(1,306)</b>	<b>Total</b>		<b>(2,977)</b>
189	Adjusting amounts written out of the Revaluation Reserve		205
<b>(1,117)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(2,772)</b>
	Capital financing applied in the year:		
743	Use of the Capital Receipts Reserve to finance new capital expenditure	1,455	
88	Capital grants and contributions credited to the CIES that have been applied to capital financing	1,460	
14	Application of grants to capital financing from the Capital Grants Unapplied Account	89	
971	Capital expenditure charged against the General Fund	1,036	
(7)	Repayment of parish loans	(4)	
<b>1,809</b>	<b>Total</b>		<b>4,036</b>
<b>48,392</b>	<b>Balance at 31 March</b>		<b>49,656</b>



## SECTION 3. NOTES TO THE ACCOUNTS

### Pensions Reserve

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

<b>31.3.2013</b>		<b>31.3.2014</b>
<b>£000</b>		<b>£000</b>
Restated*		
<b>(28,927)</b>	<b>Balance at 1 April</b>	<b>(32,073)</b>
(1,108)	Actuarial (gains) or losses on pensions assets and liabilities	1,473
(3,612)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(3,751)
1,522	Employer's pensions contributions and direct payments to pensioners payable in the year	1,647
52	Reversal of accrued strain payments	-
<b>(32,073)</b>	<b>Balance at 31 March</b>	<b>(32,704)</b>

\*See explanatory foreword – revisions to IAS19.

### Council Tax Collection Fund Adjustment Account

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

<b>31.3.2013</b>		<b>31.3.2014</b>
<b>£000</b>		<b>£000</b>
<b>99</b>	<b>Balance at 1 April</b>	<b>151</b>
52	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	62
<b>151</b>	<b>Balance at 31 March</b>	<b>213</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Business Rates Collection Fund Adjustment Account

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

31.3.2013 £000		31.3.2014 £000
-	<b>Balance at 1 April</b>	-
	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	
-		(1,090)
-	<b>Balance at 31 March</b>	<b>(1,090)</b>

#### 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.

31.3.2013 £000		31.3.2014 £000	31.3.2014 £000
(126)	<b>Balance at 1 April</b>		(139)
126	Settlement or cancellation of accrual made at the end of the preceding year	139	
(139)	Amounts accrued at the end of the current year	(151)	
(13)	<b>Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements</b>		<b>(12)</b>
(139)	<b>Balance at 31 March</b>		<b>(151)</b>

### SECTION 3. NOTES TO THE ACCOUNTS

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

2012/13*		2013/14
£000		£000
(1,933)	Depreciation	(2,017)
712	Impairment & downward valuations	493
(72)	Amortisation	(58)
(1,445)	Increase/(decrease) in Debtors	2,182
-	Increase/(decrease) in accrued interest on Investments	(68)
(1,260)	Increase/(decrease) in Creditors	(444)
(50)	Increase/(decrease) in Inventories	5
(2,038)	Movement in pension liability	(2,104)
(13)	Carrying amount of non-current assets held for sale, sold or derecognised	(190)
194	Other non-cash items charged to the net surplus or deficit on the provision of services	157
<b>(5,905)</b>	<b>Total</b>	<b>(2,044)</b>

\* 2012/13 restated. See explanatory foreword – revisions to IAS19.

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

2012/13		2013/14
£000		£000
-	Proceeds from the sale of Property, Plant & Equipment & Investment Properties	646
(4,480)	Other non-cash items charged to the net surplus or deficit on the provision of services	(311)
<b>(4,480)</b>	<b>Total</b>	<b>335</b>

#### 20. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2012/13		2013/14
£000		£000
1,317	Purchase of property, plant and equipment, investment property and intangible assets	2,867
(2,117)	(Increase)/decrease in investments	1,791
(31)	Proceeds from the sale of property, plant and equipment, investment property & intangible assets	(268)
(101)	Other receipts from investing activities (capital grants & contributions)	(1,088)
<b>(932)</b>	<b>Net cash flows from investing activities</b>	<b>3,302</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 21. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2012/13 £000		2013/14 £000
917	Net Business Rates receipts paid to/ (received) from Central Government	262
4,983	Net Council Tax receipts paid to / (received) from major preceptors	(34)
<b>5,900</b>	<b>Total</b>	<b>228</b>

### 22. 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 2013-14

	Central Services	Cultural & Related	Environmental	Highways	Housing	Planning	CDC & NDC	TOTAL 2013/14	TOTAL 2012/13
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(574)	(266)	(1,342)	(4,801)	(1,034)	(2,734)	(139)	(10,890)	(10,423)
Government grants & contributions	(780)	(470)	(922)	(38)	(22,558)	(163)	(30)	(24,961)	(30,892)
<b>Total Income</b>	<b>(1,354)</b>	<b>(736)</b>	<b>(2,264)</b>	<b>(4,839)</b>	<b>(23,592)</b>	<b>(2,897)</b>	<b>(169)</b>	<b>(35,851)</b>	<b>(41,315)</b>
Employee expenses	853	215	3,626	1,305	1,088	2,199	673	9,959	9,904
Other service expenses	376	1,789	3,767	1,760	22,701	919	753	32,065	37,579
Depreciation/ amortisation	9	537	343	115	895	273	10	2,182	1,902
Support service recharges	890	160	683	255	416	694	799	3,897	3,108
<b>Total Expenditure</b>	<b>2,128</b>	<b>2,701</b>	<b>8,419</b>	<b>3,435</b>	<b>25,100</b>	<b>4,085</b>	<b>2,235</b>	<b>48,103</b>	<b>52,493</b>
<b>Net Expenditure</b>	<b>774</b>	<b>1,965</b>	<b>6,155</b>	<b>(1,404)</b>	<b>1,508</b>	<b>1,188</b>	<b>2,066</b>	<b>12,252</b>	<b>11,178</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 23. TRADING OPERATIONS – BUILDING CONTROL

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

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

### 24. MEMBERS' ALLOWANCES

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

<http://www.southhams.gov.uk/CHttpHandler.ashx?id=6218&p=0>

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
249	Allowances	251
24	Expenses	22
<b>273</b>	<b>Total</b>	<b>273</b>

### 25. OFFICERS' REMUNERATION

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

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

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

### 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 £	Compensation £	Total £
Legal Services Manager / Monitoring Officer -- left 30.06.12	2013/14	-	-	-	-	-
	2012/13	22,800	600	4,200	10,000	37,600
Director – Shared Services	2013/14	76,200	2,800	13,900		92,900
	2012/13	73,600	4,800	13,500		91,900
Director – Shared Services	2013/14	75,200	2,500	13,800		91,500
	2012/13	72,000	4,600	13,200		89,800
Head of Corporate Services	2013/14	62,600	2,900	11,500		77,000
	2012/13	62,000	4,400	11,300		77,700
Head of Environmental Health & Housing	2013/14	62,600	2,900	11,500		77,000
	2012/13	62,000	3,600	11,300		76,900
Head of Assets	2013/14	62,600	1,900	11,500		76,000
	2012/13	62,000	4,100	11,300		77,400
Acting Head of Finance & Audit - wef 1.1.13 to 30.9.13 (not shared)	2013/14	27,700	1,000	5,100		33,800
	2012/13	14,500	400	2,700		17,600

*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 2013/14 SHDC reimbursed costs amounting to £262,700 (2012/13 £254,800) in respect of the Chief Executive, four Heads of Services and Monitoring Officer employed by WDBC. SHDC received a reimbursement in 2013/14 from WDBC of £203,300 (2012/13 £229,800) in respect of the above shared senior employees.*

*Note 2: The Chief Executive retired on 31 March 2014 and the Council has abolished this traditional role. From 1 January 2014 the Council has operated an Executive Director model, saving the equivalent of 1% of council tax per year.*

#### **Other officers earning over £50,000**

Remuneration band	2012/2013 Number of employees		2013/2014 Number of employees	
	Total	Left during year	Total	Left during year
£50,000 - £54,999	1	0	1	0

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

#### **26. PAYMENTS TO EXTERNAL AUDITORS**

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

	<b>2012/13</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
External audit services	57	57
Rebate in respect of audit fees	(5)	(8)
Certification of grant claims and returns	19	24
Other services	11	8
<b>TOTAL</b>	<b>82</b>	<b>81</b>

## SECTION 3. NOTES TO THE ACCOUNTS

### 27. GRANT INCOME

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

	2012/13 £000	2013/14 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Capital grants &amp; contributions:</b>		
Waste & Resources Action Programme–Commercial Waste	(38)	-
European Fisheries Fund – Salcombe Fish Quay	-	(772)
Devon County Council – North Sands	-	(50)
Other capital grants & contributions	(50)	(31)
<b>Non ring- fenced Government grants &amp; contributions:</b>		
Business Rates	(3,705)	-
Revenue Support Grant	(72)	(2,560)
New Homes Grant	(826)	(1,026)
Local Services Support Grant	(86)	-
Council Tax Transition Grant	-	(17)
Small Business Rate Relief	-	(713)
Rural Services Support Grant	-	(37)
<b>Total</b>	<b>(4,777)</b>	<b>(5,206)</b>
<b>Credited to Services</b>		
Rent Allowance subsidy	(22,019)	(21,688)
Housing Benefit administration subsidy	(224)	(202)
Rent rebate subsidy	(113)	(96)
Discretionary housing payments	(90)	(149)
Council Tax benefit grant	(5,907)	-
Council Tax benefit administration subsidy	(309)	(279)
Business Rates cost of collection allowance	(205)	(206)
REFCUS grants applied		
Disabled facilities grant	(365)	(271)
Section 106 deposits	(60)	(222)
Second homes funding	(27)	(99)
Other grants	-	(15)
Recycling credits	(488)	(468)
Devon County Council – Torr Quarry Transfer Station	(254)	(263)
Section 106 deposits	(292)	(167)
Home Office–Police & Crime Commissioners Elections 2012	(109)	(9)
Devon County Council – County Council Elections	-	(124)
Dept. for Communities & Local Govt. – Bellwin Scheme	-	(101)
Dept. for Communities & Local Govt. – Sherford Resource Funding	-	(66)
Other grants	(430)	(536)
<b>Total</b>	<b>(30,892)</b>	<b>(24,961)</b>



### SECTION 3. NOTES TO THE ACCOUNTS

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

The balances at the year-end are as follows:

<b>Capital Grants Receipts in Advance</b>	<b>31 March 2013 £000</b>	<b>31 March 2014 £000</b>
Section 106 Deposit – Penn Torr, Salcombe	(84)	(84)
Other grants	(31)	(52)
<b>Total</b>	<b>(115)</b>	<b>(136)</b>

<b>Short Term Revenue Grants Receipts in Advance</b>	<b>31 March 2013 £000</b>	<b>31 March 2014 £000</b>
Devon County Council – Cycling & Working Works	(29)	(13)
Plymouth City Council – AONB Plym to Yealm Enhancement Project	(26)	-
Devon Local Authorities – Member Development Role	(24)	(14)
Devon County Council – Public Health Grant	-	(20)
DCLG – Sherford Resource Funding	-	(117)
Other grants	(37)	(47)
<b>Total</b>	<b>(116)</b>	<b>(211)</b>

<b>Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)</b>	<b>31 March 2013 £000</b>	<b>31 March 2014 £000</b>
Langage Energy Centre	(2,654)	(2,469)
Dartmouth Supermarkets	(281)	(249)
Various other sites	(339)	(687)
<b>Total</b>	<b>(3,274)</b>	<b>(3,405)</b>

### 28. RELATED PARTIES

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

## SECTION 3. NOTES TO THE ACCOUNTS

### Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 27.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 24.

### iESE Transformation Ltd

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

## 29. 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.

	2012/13	2013/14
	£000	£000
<b>Capital Investment</b>		
Property, plant & equipment	1,714	2,829
Intangible assets	102	6
Revenue expenditure funded from capital under statute (REFCUS)	753	1,205
<b>Total expenditure</b>	<b>2,569</b>	<b>4,040</b>
<b>Sources of Finance</b>		
Capital receipts	743	1,455
Government grants and other contributions	554	1,549
Direct revenue contributions (earmarked reserves)	1,272	1,036
<b>Total funding</b>	<b>2,569</b>	<b>4,040</b>

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

## SECTION 3. NOTES TO THE ACCOUNTS

### 30. 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 2013 £000	31 March 2014 £000
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	184	185
Later than one year & not later than five years	668	589
Later than five years	1,132	1,020
	<b>1,984</b>	<b>1,794</b>
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:		
	2012/13 £000	2013/14 £000
Minimum lease payments	183	184
	<b>183</b>	<b>184</b>

### SECTION 3. NOTES TO THE ACCOUNTS

#### Authority as Lessor

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

Detail of lease	Term	Expiry date	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 rental of office accommodation	20 years	24.07.2032	Corporate

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

	31 March 2013 £000	31 March 2014 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	742	746
Later than one year & not later than five years	2,969	2,984
Later than five years	36,599	35,863
	<b>40,310</b>	<b>39,593</b>

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

#### 31. 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.

## SECTION 3. NOTES TO THE ACCOUNTS

### 32. 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 (£)	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	4	1	1	-	5	1	58,600	7,500
£20,001 - £40,000	4	-	-	-	4	-	120,200	-
<b>TOTAL</b>	<b>8</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>9</b>	<b>1</b>	<b>178,800</b>	<b>7,500</b>

*West Devon Borough Council did not contribute towards the above exit packages in 2013/14 although in 2012/13 a contribution of £24,700 was received. South Hams District Council did not contribute to West Devon Borough Council's exit package costs in 2013/14 or 2012/13.*

### 33. DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

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

The Authority participates in the Local Government Pension Scheme (LGPS), 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.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding

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

requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Indeed the County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 27 years. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2015 is £1.3m.

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. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2015 are £200,000.

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 continues 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.**

#### **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 International Accounting Standards Board (IASB) published a revised **IAS 19 Employee Benefits** standard in June 2011 which is intended to simplify and improve the quality of disclosures made about employee benefits plans (pensions). The new standard is effective for accounting periods beginning on or after 1 January 2013, so did not affect the original published disclosures for 2012/13

The main changes that affect the CIES are:

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;

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

- Some labelling changes to the Profit and Loss charge e.g. 'Service cost now includes what was previously described as the "Current Service Cost' plus the 'Past Service Cost' plus any 'Curtailments' plus any 'Settlements'.
- Administrative expenses are now accounted for within the CIES charge; previously a deduction was made to the actual and expected returns on assets.

The movement in the pension scheme assets and liabilities together with the treatment of the corresponding transactions in the CIES is summarised in the following tables. The 2012/13 figures have been restated due to the application of the revised IAS 19 Standard. However, this change has had no overall effect on the level of the Council's pension liability.

### SECTION 3. NOTES TO THE ACCOUNTS

2013/14:	Scheme Assets £000s	Pension Obligations £000s	Net Pension Liability £000s	Notes on Accounting Treatment
<b>Opening balance at 1 April 2013</b>	<b>73,775</b>	<b>(105,848)</b>	<b>(32,073)</b>	
Current service cost		(2,366)	(2,366)	CIES – absorbed into the total cost of services
Interest income and expenses	3,152	(4,496)	(1,344)	CIES - charged to Financing and Investment Income and Expenditure
Administration expenses	(41)		(41)	Charged to Other Operating Expenditure
Re-measurements:				
• Return on plan assets	265		265	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in demographic assumptions		(923)	(923)	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in financial assumptions		(2,063)	(2,063)	CIES Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Other actuarial gains and losses	(195)	4,389	4,194	CIES - Re-measurements of the Net Defined Liability in Other Comprehensive Income and Expenditure
Contributions:				
• Council employer's contributions	1,647		1,647	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the adjustments between Accounting and Funding basis.
• Employee contributions	529	(529)	-	Total cost of services in the CIES – netted off Current Service Cost
Retirement grants and pensions	(3,142)	3,142	-	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the Adjustments between Accounting and Funding basis
<b>Closing balance 31/03/14</b>	<b>75,990</b>	<b>(108,694)</b>	<b>(32,704)</b>	



### SECTION 3. NOTES TO THE ACCOUNTS

2012/13 (had the revised IAS 19 standard applied):	Scheme Assets £000s	Pension Obligations £000s	Net Pension Liability £000s	Notes on Accounting Treatment
<b>Opening balance at 1 April 2012</b>	<b>66,220</b>	<b>(95,095)</b>	<b>(28,875)</b>	
Current service cost		(2,167)	(2,167)	CIES – absorbed into the total cost of services
Past service cost and gains/losses on settlements		(114)	(114)	CIES - Non Distributed Costs
Interest income and expenses	3,029	(4,327)	(1,298)	CIES - charged to Financing and Investment Income and Expenditure
Administration expenses	(33)		(33)	Charged to Other Operating Expenditure
Re-measurements:				
• Return on plan assets	5,292		5,292	CIES – Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Actuarial gains and losses arising from changes in financial assumptions		(6,260)	(6,260)	CIES Re-measurements of the Net Defined Benefit Liability in Other Comprehensive Income and Expenditure
• Other actuarial gains and losses		(140)	(140)	CIES - Re-measurements of the Net Defined Liability in Other Comprehensive Income and Expenditure
Contributions:				
• Council employer's contributions	1,522		1,522	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the adjustments between Accounting and Funding basis.
• Employee contributions	540	(540)	-	Total cost of services in the CIES – netted off Current Service Cost
Retirement grants and pensions	(2,795)	2,795	-	Transactions in the Cash Flow Statement. Debited to the General Fund Balance in the MIRS as part of the Adjustments between Accounting and Funding basis
<b>Closing balance 31/03/13</b>	<b>73,775</b>	<b>(105,848)</b>	<b>(32,073)</b>	

### SECTION 3. NOTES TO THE ACCOUNTS

**Balance Sheet Disclosure – an analysis of the defined benefit obligation into amounts arising from plans that are (a) funded and (b) unfunded.**

<b>Net pension assets as at:</b>	<b>31/03/14 £000</b>	<b>31/03/13 £000</b>	<b>31/03/12 £000</b>
Present value of funded obligation	105,644	102,921	92,298
Fair value of scheme assets (bid value)	75,990	73,775	66,220
<b>Net liability</b>	<b>29,654</b>	<b>29,146</b>	<b>26,078</b>
Present value of unfunded obligation	3,050	2,927	2,797
<b>Net liability in Balance Sheet</b>	<b>32,704</b>	<b>32,073</b>	<b>28,875</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £32.7m 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.

#### **Basis for estimating assets and liabilities**

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

To assess the value of the Employer's liabilities at 31 March 2014, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

For the year ended 31 March 2014, the expected return and the interest cost has been replaced with a single net interest cost which effectively sets the expected return equal to the discount rate. Other assumptions are summarised in the following table:

### SECTION 3. NOTES TO THE ACCOUNTS

	31/03/14	31/03/13
<b>Mortality assumptions:</b>		
Retiring today		
➤ Men	22.7	20.6
➤ Women	26.0	24.6
Retiring in 20 years		
➤ Men	24.9	22.6
➤ Women	28.3	26.5
<b>Financial Assumptions</b>		
RPI increases	3.6%	3.3%
CPI increases	2.8%	2.5%
Rate of increase in salaries	4.6%	4.7%
Rate of increase in pensions	2.8%	2.5%
Rate for discounting scheme liabilities	4.4%	4.3%

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

Sensitivity analysis	£000	£000	£000
<b>Adjustment to discount rate</b>	+0.1%	0.0%	-0.1%
Present value of total obligation	106,810	108,694	110,614
Projected service cost	2,091	2,139	2,187
<b>Adjustment to long term salary increase</b>	+0.1%	0.0%	-0.1%
Present value of total obligation	108,966	108,694	108,424
Projected service cost	2,139	2,139	2,139
<b>Adjustment to pension increases and deferred revaluation</b>	+0.1%	0.0%	-0.1%
Present value of total obligation	110,370	108,694	107,049
Projected service cost	2,188	2,139	2,091
<b>Adjustment to mortality age rating assumption</b>	+1 Year	None	-1 Year
Present value of total obligation	104,881	108,694	112,542
Projected service cost	2,066	2,139	2,212

The estimated asset allocation for South Hams District Council as at 31 March 2014 is as follows:

Employer Asset Share – Bid Value	31/03/14 £000	31/03/14 %	31/03/13 £000	31/03/13 %
Gilts (Government bonds)	5,319	7%	9,591	13%
Equities	45,594	60%	45,003	61%
Property	6,838	9%	5,902	8%
Infrastructure	1,520	2%	n/a	n/a
Target Return Portfolio	11,399	15%	11,066	15%
Cash	1,520	2%	2,213	3%
Other bonds	3,800	5%	n/a	n/a
<b>Total</b>	<b>75,990</b>	<b>100%</b>	<b>73,775</b>	<b>100%</b>

Based on the above, the Employer's share of the assets of the Fund is approximately 2%. The return on the Fund (on a bid value basis) for the year ended 31 March 2014 is estimated to be 5%.

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

### **34. 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) In common with 370 other English district and unitary councils, SHDC are subject of a claim by a group of companies whose business is the making of personal searches of our local land charges records. Multiple Claims have been submitted. 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 Local Government Association have instructed external solicitors to deal with the matter on behalf of the member Local Authorities. The Council is currently considering a framework for settlement and legal advice received to determine whether this matter can be concluded, the costs are currently estimated to be £87,400 (plus interest and costs) which is substantially lower than the original estimates. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.
- c) The Council received an HMRC inspection during the 2012/13 financial year. We have accepted a liability of approximately £44,000 plus any penalty charges relating to tax and national insurance contribution for a worker who was incorrectly considered to be self-employed. A provision of £50,000 has been made in the accounts for this liability. HMRC are still considering whether we have a liability relating to the personal use of Council vans or payment for home broadband. However, the Council has taken advice and put forward a robust defence which is currently under consideration by HMRC. Until this issue is resolved the financial impact is not known.

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

### **35. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

#### **Key Risks**

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

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

#### **Overall Procedures for Managing Risk**

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

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- 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 21 March 2013 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 11 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 2013/14 was approved by the Executive on 21 March 2013 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 an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2014 and is reflected in the current figure of £494,000. This compares to £489,000 in 2012/13. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council's debtors is provided in Note 13 to the accounts.

#### Liquidity risk

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

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

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 14 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

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

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

If all interest rates had been 1% higher, with all other variables held constant, the financial effect would be that an additional £245,000 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**

### **36. ACCOUNTING POLICIES**

#### **1. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. 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 2013/14 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:

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

**Key: T = trade date**

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

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

#### **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.

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

### **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.

### **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

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

in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **Termination Benefits**

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

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

#### **Post Employment Benefits**

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

#### **The Local Government Scheme**

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

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

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

employee turnover rates etc, and estimates of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value.

For further information please refer to Note 33

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

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

### **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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Devon County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

#### **Discretionary Benefits**

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

#### **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.

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

Events taking place after the date of authorisation for issue (18 September 2014) are not reflected in the Statement of 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.

#### **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; and
- 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.

#### **Recognition and measurement of financial instruments**

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

<b>Financial Instrument</b>	<b>Basis of Measurement</b>	<b>Note</b>
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality.	See also accounting policy on cash equivalents.
Operational debtors	Held at invoiced or billed amount less an estimate for non-collection of debts.	Carrying amount is a reasonable approximation of fair value for these short term receivables with no stated interest rate. The carrying amount has been adjusted for an assessment of bad debts. See Note 35 within 'credit risk' for further information.
Operational creditors	Held at invoiced or billed amount.	Carrying amount is a reasonable approximation of fair value for these short term liabilities.



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

### **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.

### **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.

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

### **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.

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

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

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.

#### **The Authority as Lessor**

##### Finance Leases

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

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

#### 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 2013/14* (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:

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

#### **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.

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but 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:

- 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

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

relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

#### **De minimis policy for capital controls and accounting purposes**

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

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

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

#### **Component Accounting**

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

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

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

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

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

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

1. Operational Buildings
2. Assets Held for Sale

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

The following will be considered outside the scope for componentisation:

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

The criteria for components to be separately valued are that:

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

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

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

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

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

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

- Plant and equipment and engineering services
- Structure

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

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

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

**Impairment**

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

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:

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

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost,



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

being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### **Disposals and Non-current Assets Held for Sale**

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

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

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

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

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

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

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

### **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.

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.

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

### **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 1<sup>st</sup> October 2011, all services operated by West Devon Borough Council and South Hams District Council have been shared at senior management level and middle management level.

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc and other methods such as time recording.

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

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.

#### **25. Business Rates Retention**

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013.

General Fund – the Comprehensive Income and Expenditure statement accrues the Authority's share of the 2013/14 rates bills. The movement in Reserves Statement features an adjustment reconciling accrued rates income for the year to the entitlement to transfer from the Collection Fund (with a balancing entry in the Collection Fund Adjustment Account).

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) introduces changes in accounting policies that will have to be adopted fully by the authority in the 2014/15 financial statements i.e. from 1 April 2014.

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. For 2014/15 there are no standards issued not adopted that are expected to have a material impact on the 2014/15 statement of accounts.

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

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

In applying the accounting policies set out in Note 36, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The assumptions made by the actuary in determining the value of the pension liability are appropriate and reasonable.
- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads.
- The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. Provision is made for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency. Using this information an assessment was made about the likely success rate of appeals and their value.

## SECTION 4. COLLECTION FUND

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

2012/13 Business Rates £000	2012/13 Council Tax £000		2013/14 Business Rates £000	2013/14 Council Tax £000
		<b>INCOME</b>		
-	(53,363)	Income from Council Tax	-	(55,556)
(30,445)	-	Business Rates Receivable	(28,698)	-
-	(5,858)	Transfers from General Fund – Council Tax benefits	-	-
3,420	-	Less: Transitional Relief	(2,432)	-
<b>(27,025)</b>	<b>(59,221)</b>		<b>(31,130)</b>	<b>(55,556)</b>
		<b>EXPENDITURE</b>		
		<b>Precepts, Demands &amp; Shares:</b>		
-	-	Central Government	15,785	-
-	42,669	Devon County Council	2,841	39,557
-	6,105	Devon & Cornwall Police Authority	-	5,773
-	2,825	Devon & Somerset Fire & Rescue Authority	316	2,671
-	6,860	South Hams District Council (net including Towns/Parishes)	12,628	6,601
-	-	Business Rates – write off of uncollectible debt	123	-
139	-	Change in allowance for non collection of doubtful debts	99	-
-	112	Council Tax written off and change in impairment allowance	-	141
-	(109)	Council Tax increase/(decrease) in provision for appeals	-	41
(48)	-	Rates increase/(decrease) in provision for appeals	1,856	-
26,623	-	Business Rate–Payment to National Pool	-	-
106	-	2012/13 deferral scheme	-	-
205	-	Business Rates – Costs of collection	206	-
		Distribution of previous year's estimated surplus		
-	253	Devon County Council	-	190
-	36	Devon and Cornwall Police	-	27
-	16	Devon and Somerset Fire Authority	-	13
-	40	South Hams District Council	-	30
<b>27,025</b>	<b>58,807</b>		<b>33,854</b>	<b>55,044</b>
-	(414)	<b>MOVEMENT ON BALANCE</b>	<b>2,724</b>	<b>(512)</b>

## SECTION 4. COLLECTION FUND

### 1. Council tax and council tax base

In 2013/14, the Council's average Band D Council Tax was £1,540.97 (£1,529.50 in 2012/13). The charge for each band is a ratio of band D. The 2013/14 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	856.09
A	6/9	1,027.31
B	7/9	1,198.53
C	8/9	1,369.75
D	1	1,540.97
E	11/9	1,883.41
F	13/9	2,225.85
G	15/9	2,568.28
H	18/9	3,081.94

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2013/14 was 35,434.09 as calculated below (38,221.67 in 2012/13).

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	4,864.00	(921.50)	3,942.50	6/9	2,628.33
B	8,510.00	(1,029.25)	7,480.75	7/9	5,818.36
C	8,347.00	(845.25)	7,501.75	8/9	6,668.22
D	7,870.00	(4,112.92)	3,757.08	1	3,757.08
E	6,393.00	(491.25)	5,901.75	11/9	7,213.25
F	3,527.00	(196.50)	3,330.50	13/9	4,810.72
G	2,906.00	(224.50)	2,681.50	15/9	4,469.17
H	289.00	(22.50)	266.50	18/9	533.00
<b>Total</b>	<b>42,706.00</b>	<b>(7,836.67)</b>	<b>34,869.33</b>		<b>35,902.02</b>
Less allowance for non collection					(538.53)
Plus adjustment for armed forces dwellings					70.60
<b>Tax base</b>					<b>35,434.09</b>

## SECTION 4. COLLECTION FUND

### 2. Rateable value

The total Business Rates rateable value at 31 March 2014 was £82,168,779. This compares to £81,828,083 at 31 March 2013. The standard Business Rates multiplier was 47.1p in 2013/14 (2012/13: 45.8p). Without reliefs this would generate a total income of £38,701,494.91 (2012/13 £37,477,262.01). These figures are a snapshot only and differ from the value of Business Rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief.

### 3. Collection fund balance

2012/13 Business Rates £000	2012/13 Council Tax £000		2013/14 Business Rates £000	2013/14 Council Tax £000
-	(845)	Fund balance at 1 April	-	(1,259)
-	(414)	(Surplus) / Deficit for year	2,724	(512)
-	<b>(1,259)</b>	<b>Fund balance as at 31 March - (surplus)/deficit</b>	<b>2,724</b>	<b>(1,771)</b>

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

2012/13 Business Rates £000	2012/13 Council Tax £000		2013/14 Business Rates £000	2013/14 Council Tax £000
-	-	Central Government	1,362	-
-	(913)	Devon County Council	245	(1,284)
-	(133)	Devon and Cornwall Police	-	(188)
-	(62)	Devon and Somerset Fire Authority	27	(86)
-	<b>(1,108)</b>	<b>Total (surplus)/deficit due to Preceptors</b>	<b>1,634</b>	<b>(1,558)</b>
-	(151)	South Hams District Council	1,090	(213)
-	<b>(1,259)</b>	<b>Fund balance as at 31 March - (surplus)/deficit</b>	<b>2,724</b>	<b>(1,771)</b>



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

***The Authority's responsibilities***

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the 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 2014.

.....

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

**18 September 2014**

**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 18 September 2014.

Signed on behalf of South Hams District Council

.....

**Councillor JT Pennington**

Chairman of the Audit Committee

18 September 2014

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

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

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

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

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

#### **Respective responsibilities of the 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of South Hams District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### **Opinion on other matters**

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

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

We report to you if:

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

We have nothing to report in these respects.

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

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

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

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

### ***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, *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 2014.

### ***Certificate***

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

Barrie Morris

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Bristol

18 September 2014

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

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

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



# The Audit Findings for South Hams District Council

Year ended 31 March 2014

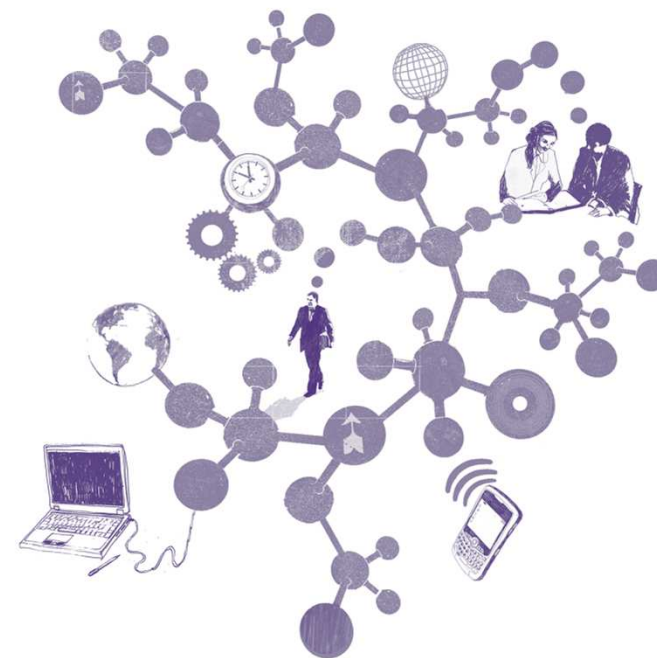
18 September 2014

Page 127

**Barrie Morris**  
Engagement Lead  
T 0117 305 7708  
E [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)

**Steve Johnson**  
Audit Manager  
T 07880 456 134  
E [steve.p.johnson@uk.gt.com](mailto:steve.p.johnson@uk.gt.com)

**Toby Bundy**  
Executive  
T 0117 305 7836  
E [toby.bundy@uk.gt.com](mailto:toby.bundy@uk.gt.com)



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

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

---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Value for Money	18
4. Fees, non audit services and independence	21
5. Communication of audit matters	23

---

## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

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

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

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 3 April 2014.

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

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation

- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified presentation errors affecting the Council's reported movement in reserves. The presentation of the Council's capital financing required expanding to present the entries consistently in the financial statements. The associated adjusting entries have not resulted in a change to the Council's reported reserves at the year end

We have also identified a number of presentational adjustments to improve the presentation of the financial statements. There are no unadjusted errors.

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

### **Value for Money conclusion**

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

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

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

We have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

### **Controls**

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

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

Further details are provided within section 2 of this report.

### **The way forward**

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

### **Acknowledgment**

We recognise that the audit was undertaken at a time of significant change and uncertainty within the finance team. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit in responding to our queries.

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

---

## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 3 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Page 134

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 3 April 2014

## **Audit opinion**

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



## Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</li> <li>• Testing of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition .</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Page 136

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>• Review of system documentation and walkthrough of transaction</li> <li>• Agree creditors to the ledger</li> <li>• Review unusual amounts</li> <li>• Review of payments before and after year end to ensure that they are allocated to the correct year and correctly recognised</li> <li>• Test a sample of operating expenses</li> </ul>	Our audit work has not identified any significant issues in relation to the understatement of creditors or that operating expenses have been recorded in the wrong period.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>• Review of system documentation and walkthrough of transaction</li> <li>• Predictive analytical review</li> <li>• Reconcile year end HMRC return to ledger</li> <li>• Review unusual amounts</li> <li>• Confirm accounts disclosures</li> <li>• Substantively test a sample of remuneration transactions</li> </ul>	Our audit work has not identified any significant issues in relation to the understatement of the employee remuneration accrual.
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>• Analytical review</li> <li>• Review the reconciliation of the housing benefit system to the general ledger</li> <li>• Agree the Housing Benefit claim to the accounts</li> <li>• Review of system documentation and walkthrough of transaction</li> <li>• Substantively test a sample of welfare claims</li> <li>• Verifying system parameters</li> </ul>	Our audit work has not identified any significant issues in relation to the computing of welfare benefit expenditure.

## Audit findings against other risks




In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Property, plant &amp; equipment (PPE)</b>	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>• Review the system documentation and walkthrough of a transaction</li> <li>• Substantively test the accounting treatment for the valuation to ensure it has been correctly applied</li> <li>• Reconcile valuers' report to Fixed asset register</li> </ul>	Our audit work has not identified any significant issues in relation to the revaluation of PPE.

# Accounting policies, estimates & judgements

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

Page 138

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Activity is accounted for in the year it takes place, not simply when cash payments are made or received.	We have no issues over the: <ul style="list-style-type: none"> <li>• Appropriateness of policy under relevant accounting framework</li> <li>• Adequacy of disclosure of accounting policy</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	Management have disclosed their accounting policy, and disclosed key estimates and judgements around: <ul style="list-style-type: none"> <li>– Asset valuations;</li> <li>– Depreciation;</li> <li>– Bad debt provisions; and</li> <li>– Pension fund valuations and settlements.</li> </ul>	We have no issues over the: <ul style="list-style-type: none"> <li>• Appropriateness of policies under relevant accounting framework</li> <li>• Extent of judgements involved</li> <li>• Adequacy of disclosure of accounting policies</li> </ul>	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies did not identify any areas where the Council has not disclosed its policy appropriately.	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Adjusted misstatements

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

## Impact of adjusted misstatements

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

Detail	Original disclosure £'000	Note 4. Adjustments between accounting basis and funding basis under regulations £'000	Capital Adjustment account £'000
1 <b>Movement in Reserves</b>			
Capital grants and contributions applied	853	-607	607
Capital expenditure charged against the General Fund balance (financing from reserves)	528	-508	508
Revenue expenditure funded from capital under statute (REFCUS)	90	1,115	-1,115
<b>Overall impact</b>		<b>£0</b>	<b>£0</b>

## Misclassifications & disclosure changes

In the course of our work we identified a few minor disclosure and presentational adjustments. These have been processed by the Council and the specific details do not need to be brought to the attention of the Audit Committee.


Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	n/a	The 2013 Code has included enhanced Pension Fund disclosures. The additional disclosure of the sensitivity analysis for the Pension Fund was not included in the draft financial statements. This has been included in the updated Financial statements

# Internal controls



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

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

Page 141

	Assessment	Issue and risk	Recommendations
1.	 Amber	<p>Payroll processes</p> <p>As highlighted within our Audit Plan we noted that there was a lack of segregation of duties within the payroll department.</p> <p>This was followed up by the audit team during the final accounts review. It was noted that payroll was still administered by one individual. Further, from discussions with members of the finance and HR teams there appeared to be insufficient medium term contingencies should that member of staff leave or become ill.</p> <p>Given the significant changes in staffing following the T18 Transformation project post year end involving redundancies and the knock on effects for pension schemes this is considered to be a complex period for the payroll department should any issues arise.</p>	<p>We recommend that there is a segregation of duties within the payroll department whereby one member of staff is not wholly responsible for the processing of all the payroll.</p> <p>In the short term a robust contingency plan put in place to ensure both payroll is submitted on time and relevant returns are sent to HMRC should issues arise with the member of staff currently responsible for preparing payroll.</p>

## Assessment


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

## Internal controls



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

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

Page 142

	Assessment	Issue and risk	Recommendations
2.	 Amber	<p><b>Housing Benefit debtor</b></p> <p>Through our audit testing of the year end housing benefit recoveries from on-going benefits debtor it was not possible to obtain the breakdown of this balance at 31 March 2014. The reason being is that the system used by the revenues and benefits team can only produce this report showing live information and cannot produce historic reports.</p> <p>The relevant report breaking down the outstanding debtors at 31 March 2014 was not saved at the time and therefore unavailable during the audit.</p>	<p>We recommend that the running of this report by the revenues and benefits team is incorporated into the Council's year end close down procedures, to be run at 31 March 2014 and provided to the finance team as support for their balance sheet.</p>

### Assessment

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



## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Written representations</b>	A standard letter of representation has been requested from the Council.
4.	<b>Disclosures</b>	Our review found no material omissions in the financial statements.
5.	<b>Matters in relation to related parties</b>	We are not aware of any related party transactions which have not been disclosed.
6.	<b>Going concern</b>	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

---

## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

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

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

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

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

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

## Key findings

### Securing financial resilience

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

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

The Council reported a small deficit of £127k for 2013/14 principally arising from shortfalls of income from Car parks and the Dartmouth Ferry. The budget incorporated savings of £550k. The deficit represents 0.2% of the council's gross expenditure.

Usable reserves at 31 March were £10.3m, which is an increase on 31 March 2013, so overall, the Council's financial position at the year end remains healthy. However, the Council's forward-looking financial plan recognises the need for savings in 2014/15 of £0.58m and the medium term financial strategy recognises further budget pressures of £1.8m over the next four years. Delivery of these savings is highly dependent on the success of the T18 transformation programme, in partnership with West Devon Borough Council.

## Value for Money (continued)

The Council has areas of spend that appear high in comparison with similar councils, such as Waste management, and highways and transport, the Council also does not generate as much income from the arts and tourism as its family group. The Council is aware of these through its use of the SPARSE benchmarking and is investigating the scope for these to be addressed. This will be explored in more detail as part of our financial resilience report, which will be presented at the next Audit committee meeting.

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

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

- Prioritising resources
- Improving efficiency & productivity

The Council's plans prioritise its resources reflecting the financial constraints. The T18 programme aims to streamline processes to improve efficiency & productivity. We have concluded that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

### **Overall VFM conclusion**

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

---

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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit

## Fees

	Per Audit plan £	Actual fees £
Council audit	56,972	57,872
Grant certification	10,302	10,302
<b>Total audit fees</b>	<b>67,274</b>	<b>68,174</b>

## Fees for other services

Service	Fees £
Review of T18 Project (A joint review with South Hams District Council)	2,325

Page 148

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

## Independence and ethics

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

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

---

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

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

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

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

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

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



Page 151

# Appendices

# Appendix A: Audit opinion

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF South Hams District COUNCIL

### Opinion on the Authority financial statements

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

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

### Respective responsibilities of the 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Hams District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### Opinion on other matters

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

### Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

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

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, *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 2014.

**Certificate**

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

Barrie Morris  
 Director  
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Bristol

18 September 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**

AGENDA  
ITEM

8

## SOUTH HAMS DISTRICT COUNCIL

AGENDA  
ITEM

8

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>18<sup>th</sup> September 2014</b>
<b>REPORT TITLE</b>	<b>INTERNAL AUDIT – REVISION OF AND PROGRESS AGAINST THE 2014/15 PLAN</b>
<b>Report of</b>	<b>Chief Internal Auditor</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

**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 2014/15 to the 31<sup>st</sup> July 2014, by:

- Highlighting the need to revise the internal audit plan for 2014/15 to reflect the impact of the T18 Transformation Programme blueprinting;
- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by the section against the 2014/15 annual audit plan, reviewed by this Committee in April 2014.

**Financial implications:**

None, within existing budgets.

**RECOMMENDATIONS:**

**That the Audit Committee considers the revision of the 2014/15 Internal Audit Plan and the progress made against it, and comment on the summary of issues arising.**

**Officer contact:**

Allan Goodman, Chief Internal Auditor - 01803 861375

Email: [allan.goodman@swdevon.gov.uk](mailto:allan.goodman@swdevon.gov.uk)

Lisa Buckle, S.151 Officer – 01803 861413

## **1. BACKGROUND**

- 1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference A.32/13) and covers:

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 2014/15 and was approved by the Audit Committee in April 2014 (Minute reference A.32/13 refers). It 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 – 2014/15**

### *Audit Plan 2014/15*

- 2.1 The 2014/15 audit plan (Appendix A) was presented and accepted by the Audit Committee at their meeting of April 2014 (A.33/13 refers).

### *Local and National Risk Based Amendments to the Plan/T18 Transformation*

- 2.2 The audit plan is continuously reviewed and updated to reflect emerging risks, and these are incorporated either through the contingency days or by changes to the plan, depending on the significance.
- 2.3 The blueprinting model connected with the T18 Transformation programme reduced the resources available for internal audit to 2.6 whole time equivalents (from 2.9), which must also include the principles of T18 such as self service, agile working etc. However, it is also essential that the requirements of the Public Sector Internal Audit Standards (PSIAS) are retained going forward, the most important being the independence of the internal audit management and team.
- 2.4 Five options that maintained the independence were considered by the S.151 Officer with the support of the Senior Management Team (SMT).
- Full in-house provision, without an Audit Management System;
  - Full in-house provision, with an Audit Management System;
  - Outsourced management/in-house service provision, with an Audit Management System;
  - Full Internal Audit Partnership; and
  - Outsourcing to the private sector.

- 2.5 It was decided that two whole time equivalent auditors be retained in-house and the management supplied by one of the local authority audit partnerships. Use of internal audit management software, which in the past has been too expensive for a small team, is also to be acquired to improve efficiency. This has left the Chief Internal Auditor's post redundant, although the existing auditors were successful in their applications' which assists continuity.
- 2.6 The blueprinting process also identified that an enhanced role was required at the Senior Auditor level to reflect the fact that this post would incorporate some of the work previously carried out by the Chief Internal Auditor e.g. day to day liaison with audit management and senior managers and Members.
- 2.7 The new T18 arrangements will be more efficient as there will be an opportunity to use Audit Management software which will reduce the amount of time taken to carry out individual audit assignments. Audit management software will also enable the Council to self serve for audit controls self assessment and the follow up of recommendations in audit reports.
- 2.8 The Council will take a new strategic approach to risk, whilst at the same time ensuring that risks are mitigated through the appropriate controls and self assessment.
- 2.9 The net effect on the audit plan of the new arrangements from 1<sup>st</sup> October 2014 and the provision of external audit management is to reduce it for 2014/15 from 630 days to 567 days (Appendix A).
- 2.10 The most significant proposed amendments to the Plan brought about by the new arrangements following the T18 Blueprinting and Time Analysis are :

<b>Audit</b>	<b>Plan Days 2014/15</b>	<b>Plan Days Update</b>	<b>Reason for Change</b>
Cemeteries and Burials	4	0	Low £ value, low audit risk.
Public Health incl. Water Sampling	6	0	Low audit risk, mainly salaries except water sampling (covered in previous years).
Grounds Maintenance	8	0	Mainly salaries and purchases. Assurance from payroll, creditors and budgetary control audits.
Housing Strategy	6	0	Audited at WDBC in 2013/14, some coverage in Capital Expenditure and Public Sector Housing Renewal audits.
Development Control - Enforcement	6	0	Low audit risk, mainly salaries.

*Amendments to the Plan (continued):*

<b>Audit</b>	<b>Plan Days 2014/15</b>	<b>Plan Days Update</b>	<b>Reason for Change</b>
Electoral Registration	6	0	Low audit risk, mainly salaries plus regulatory framework provides assurance.
Allocation of HQ Costs	4	0	Low audit risk, internal recharges only.
Drawing Office	6	0	Low audit risk. Mainly salaries and internal recharges. Some assurance from creditors audit for purchases.
Asset Management	7	0	Strategic Asset Review taking place; linking coverage in Capital Expenditure

2.11 The full updated plan appears at Appendix A

*Resources and Skills*

2.12 Sickness to the 31st July 2014 is 1 day (2013/14 equivalent 0 days).

2.13 In 2014/15 to date, 7 days training has been provided to the audit team.

*Progress against the Plan*

2.14 The 2014/15 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.

2.15 The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

2.16 **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.

2.17 **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 Contract or Financial Procedure Rules*



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

Fraud, Corruption, Bribery and Whistle Blowing

2.19 No actual, suspected or allegations of fraud, corruption or bribery have been identified so far this year, and there are no known whistle blowing reports.

Performance Indicators

2.20 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 2014/15.

2.21 At this stage in the year, the key indicator ‘Completion of 2014/15 Audit Plan’ is as follows:

Indicator	Target %	Actual %	Comments
Audits completed from 2013/14 combined audit plan.	95	100	As reported to the Audit Committee June 2014.

*Continued overleaf*

<b>Audits at the 31st July 2014 at various stages of completion from 2014/15 revised audit plan and their 2013/14 equivalents.</b>			
SHDC	-	36%	(35% at July 2013).
WDBC	-	36%	(27% at July 2013).
Combined plan	95	36%	(33% at July 2013) – full plan

Internal Audit – Shared Services

2.22 The following has been achieved so far this financial year:

Shared service with West Devon

- Progress on the 2014/15 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 e.g. recharging shared service costs.

Teignbridge

- Exchange of audit programmes, advice, official guidance and best practice; and
- Liaison over various corporate documents.

**3. ISSUES from JUNE and JULY 2014 AUDIT COMMITTEES**

3.1 The Committee requested further information on several topics, namely:

## June 2014 Committee

- 3.2 Agenda Item 8: Future of Local Audit: The Chief Internal Auditor had advised members of the imminent issue by Government of guidelines on the requirements on Local Authorities, but this was not available at the time of the June Committee.

A further batch of draft regulations has been made available for consultation:

<https://www.gov.uk/government/consultations/local-audit-regulations>

The document sets out the proposals for the regulations and is consulting on:

- i) **Section 2:** Modification of the Act in relation to smaller authorities,
- ii) **Section 3:** Specification of Collective Procurement body;
- iii) **Section 4:** Account and Audit regulations
- iv) **Section 5:** Transparency Code for internal drainage boards, charter trustees and port health authorities

In summary the proposals are:

- Local government will be enabled to establish appointing bodies that will be authorised by the Secretary of State to appoint auditors to authorities that opt in to collective procurement;
- The bulk of the existing Accounts and Audit Regulations will be carried forward;
- From 2017/18, the dates for Section 151 Officer certification and publication of the accounts are to be brought forward to 31 May and 31 July respectively
- The unaudited statement of accounts is to be published once certified, which will kick off the inspection process – objections will be able to be made from this date, putting an end to the auditor's appointed day that followed the inspection period
- The statement of accounts is to be accompanied by a "narrative statement", which will comment on financial performance and value for money outcomes in accordance with undefined "proper practices"
- The specific requirement for an annual review of internal audit has been removed (subsumed in the review of internal control).

The Committee will be kept informed of future developments.

## July 2014 Committee

- 3.3 Minute A13/14: The Audit Committee is to be advised of any updates required to the 2013/14 Annual Governance Statement (AGS) at the September 2014 meeting, following the Committee's approval of the draft AGS as part of the process of approval for the Statement of Accounts.

#### 4. LEGAL IMPLICATIONS

4.1 Statutory Powers: **Accounts and Audit Regulations 2011**

#### 5. FINANCIAL IMPLICATIONS

5.1 None, within existing budgets.

#### 6. RISK MANAGEMENT

6.1 The risk management implications follow this table:

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.

<b>Background papers:</b>	CIPFA Local Government Application Note for the united Kingdom Public Sector internal Audit Standards 2013; CIPFA Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2014/15.
<b>Appendices attached:</b>	<b>Appendix A:</b> Audit Plan 2014/15 – Progress to 31st July 2014 <b>Appendix B:</b> Planned Audit 2014/15 – Final Reports: Detailed Items <b>Appendix C:</b> Planned Audit 2014/15 – Summary of Results <b>Appendix D:</b> Unplanned Audit 2014/15 – 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 to 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 gains assurance from the work of internal audit. The result is no additional charges being requested 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 may gain no assurance from the work of internal audit, potentially resulting in requests for 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.	3	2	6	↔	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, should significant resource issue arise.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Progress Against the 2014/15 Internal Audit Plan

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	■								9% completed. Budget setting only.
Creditor Payments	11	■								9% completed.
Payroll	10	■								5% completed.
Council Tax	14	■								10% completed.
Business Rates (NDR)	12	■								8% completed.
Benefits	15									
Benefits Debtors	5									
Debtors	10									
Treasury Management	4									
Capital Expenditure & Receipts	11	■								48% completed.
<b>Fundamental Systems</b>	<b>105</b>									
Salcombe Harbour	10	■								60% completed.
Dartmouth Lower Ferry	9	■								77% completed.
Street Scene - Car and Boat Parking	9									
Private Sector Housing Renewal	8	■	■							Draft report issued 04.08.2014
Data Quality & Performance Indicators	5	■								Strategy only.
Use of Email & Internet	10	■	■	■	■		■			Summary to Audit Committee - September 2014
Computer Audit	26	-	-	-	-	-	-	-	-	
Grants - RDPE Rural Community LAGs	7	9 days used	-	-	-	-	-	-	-	13 Transition Management & Admin invoices.

Page 101 of 161

Progress Against the 2014/15 Internal Audit Plan

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	
Coastal Communities Fund – Accountable Body	20	2.5 days used	-	-	-	-	-	-	-	Minute reference E.28/12 refers. 4 project and 4 management claims audited.
Follow Up of Previous Year's Audits	10	0.7 days used								
<b>Contingency (Unplanned)</b>	<b>54</b>	20.1 days used								<b>From 55 days.</b> Includes new creditors system work and SH election duties.
Corporate Governance	8									
Exemptions to Contract or Financial Procedure Rules	5	1.6 days used								7 Exemption applications received and processed to July 2014, of which 7 accepted.
<b>System of Internal Control (SIC) &amp; Annual Governance Statement (AGS)</b>	<b>5</b>	■	■	■	■	-	-	-	-	<b>From 6 days.</b> Reports to the July and October 2014 Audit Committees for approval of the Annual Governance Statement.
Risk Management / Business Continuity	3									
<b>West Devon Borough Council</b>	<b>112</b>	-	-	-	-	-	-	-	-	<b>From 115 days,</b> separately reported to WDBC, plan reduced by two audit engagements.
<b>Other Essential (Revised)</b>	<b>301</b>									
<b>Cemeteries and Burials</b>	<b>0</b>	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 4 days</b>
<b>Coast Protection</b>	<b>5</b>	■	■	■	■			■		<b>From 8 days.</b> Summary to Audit Committee - September 2014.
Flood Defence and Land Drainage	6	■	■	■	■		■			Summary to Audit Committee - September 2014
Environmental Initiatives including AONB	6	■	■				■			Summary to Audit Committee - September 2014
Land and Investment Properties	7	■	■				■			Summary to Audit Committee - September 2014
Democratic Representation including Members	6	■	■							Draft report issued 08.07.2014
<b>Electoral Registration</b>	<b>0</b>	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 6 days</b>
<b>Community Safety</b>	<b>4</b>	■	■	■	■	■				<b>From 6 days.</b> Summary to Audit Committee - September 2014.
<b>Housing Standards</b>	<b>3</b>	■	■							<b>From 6 days.</b> Draft report issued 15.07.2014
<b>Housing Strategy</b>	<b>0</b>	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 6 days</b>

Page 165

Progress Against the 2014/15 Internal Audit Plan

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	
<b>Public Health including Water Sampling</b>	0	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 6 days</b>
Pest Control	1	■	■	■	■	■				Summary to Audit Committee - September 2014
<b>Grounds Maintenance</b>	0	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 8 days</b>
Beach Cleaning	6	■	■							Draft report issued 01.08.2014
<b>Allocation of HQ costs</b>	0	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 4 days</b>
Non distributed costs including Redundancies	5									
<b>Design Office</b>	0	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 6 days</b>
Local Welfare Support	2									
<b>Development Control Enforcement</b>	0	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 6 days</b>
Economic Development	5	■								24% completed.
Advice to RM/ Information Compliance/Other Groups	3	0 days used	-	-	-	-	-	-	-	
<b>Asset Management</b>	0	-	-	-	-	-	-	-	-	<b>Removed from plan – previously 7 days</b>
Shared Services	5	■	■							Draft report issued 21.07.2014
Sustainability	4	■	■	■	■		■			Summary to Audit Committee - September 2014
T18 Transformation Programme	5	1.4 days used								
Counter Fraud Work	10	■								75% completed.
<b>Other (Revised)</b>	<b>83</b>									



Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

<b>Included above:</b>											
Installation & Healthcheck	7										
Computer & Network Management and Security	9										
Change Control	7										
Other Reviews including Internet Controls	3										
<b>Computer Audit</b>	<b>26</b>										

<b>Overheads</b>											
<b>Audit Administration</b>	<b>15</b>	8.2 days used	-	-	-	-	-	-	-	-	Includes team briefings, staff voice etc.
<b>Audit Management, including Audit Planning</b>	<b>10</b>	6 days used	-	-	-	-	-	-	-	-	
<b>Partnership Audit Management</b>	<b>27</b>										
<b>Audit Monitoring against the Plan, including Reports to Management and Audit Committee.</b>	<b>9</b>	5.8 days used	-	-	-	-	-	-	-	-	
<b>Training</b>	<b>12</b>	6.7 days used	-	-	-	-	-	-	-	-	
Miscellaneous e.g. CPR, FPR etc.	5	1.1 days used	-	-	-	-	-	-	-	-	Update of CPR
<b>Total (Revised)</b>	<b>78</b>	27.8 days used									

<b>Overall Total (Revised)</b>	<b>567</b>										From 630 days
--------------------------------	------------	--	--	--	--	--	--	--	--	--	---------------

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

RESOURCES AVAILABLE (Revised)		2014/15
		<b>Days</b>
Chief Internal Auditor	<i>From 234 days in the original plan</i>	117
Senior Auditor		261
Auditor		261
<b>Partnership Audit Management</b>	<i>New</i>	<b>35</b>
Sickness	<i>From -18 days in the original plan</i>	-15
Bank Holidays	<i>From -24 days in the original plan</i>	-21
Annual Leave	<i>From -84 days in the original plan</i>	-71
<b>TOTAL RESOURCES AVAILABLE</b>	<i>From 630 days in the original plan</i>	<b>567</b>

## Planned Audit 2014/15 – Final Reports Issued

The following tables provide a summary of the **audit opinion** and main issues raised in the reports issued to managers. **In all cases (unless stated) an action plan has been agreed to address these issues.**

### Opinion Definitions

#### **Excellent**

The areas reviewed were found to be well controlled; internal controls are in place and operating effectively. Risks against the achievement of objectives are well managed.

#### **Good**

The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.

#### **Fair**

There is a control framework in place, but some of the areas reviewed were not found to be adequately controlled. In these areas risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.

#### **Poor**

Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

## Planned Audit 2014/15 – Final Reports Issued

### September 2014 Audit Committee

Subject	Audit Findings	Management Response
<p>Coast Protection Issued 16.06.2014</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 170</p>	<p><b>Fair</b></p> <p>The Council has been generally meeting the duties required of it under the Coast Protection Act 1949.</p> <p>However there are some other items we wish to report, generally in the area of policy and strategy, the most important of which is that the Council does not have an operational policy relating to coast protection, to support the discretionary duties it chooses to undertake.</p> <p>It is expected that the current coastal assets survey will feed any potential future policy, as will the Task &amp; Finish member group recently set up to consider the Council's future level of involvement in coastal issues.</p> <p>There are no planned coast protection schemes within the 2014-15 Capital Programme. Repairs to the estuary walls at Bayards Cove, which were damaged in the winter of 2013/14 storms are programmed for 2015/16.</p> <p>There remains a key outstanding issue from the previous report relating to the management of Dartmouth Embankment.</p> <p>The previous agreement between the Council and the Dart Harbour Navigation Authority, regarding the management of the Dartmouth Embankment, was terminated in 2003.</p> <p>As yet no new agreement has been reached between the two bodies, although negotiations have continued.</p> <p>The Head of Assets hopes that these negotiations will be concluded within the next year.</p>	<p>Agreed to ensure that the Council has a policy in place relating to the management of coastal defences and other coastal assets.</p> <p>The options are to be discussed with the Council's Legal service.</p> <p>The 2013/14 Annual Governance Statement stated 'Dialogue continues with the Dart Harbour Authority with a view to reaching agreement for some annual contribution to a sinking fund for maintaining the Embankment, and clarifying the management responsibilities for individual areas on the Embankment.</p> <p>However, external legal advice is now being sought to interpret the Dart Harbour Navigation Act 1975 Section 54 and bring this matter to a final conclusion'.</p>

## Planned Audit 2014/15 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<b>Flood Defence and Land Drainage</b> Issued 17.06.2014	<b>Good</b> The Council is meeting those duties required of it under the Flood and Water Management Act 2010 and other associated legislation. But there are some issues we wish to raise relating to policy: <ul style="list-style-type: none"> <li>• The Council does not have a Flood Management / Land Drainage policy, although it is intended to introduce one. However publication of the Local Flood Risk Management Strategy by the LLFA (DCC) is awaited in order that any local policy can be aligned; and</li> <li>• The Council has historically maintained a small number of watercourses for which it is not responsible and bearing the cost for doing so.</li> </ul>	DCC have recently published a strategy allowing this Council's policy to be progressed and linked with their countywide Local Flood Risk Management Strategy.  We will consider ceasing to maintain those watercourses for which the Council is not responsible, either returning responsibility to the owner, or providing the service for a charge.
<b>Use of Internet and Email</b> Issued 20.06.2014 Joint report with West Devon Borough Council (WDBC)	<b>Good</b> We are pleased to be able to report that the majority of internet access is conducted within the guidelines adopted by the Council. The Councils' have provided ICT Policies and Acceptable Use Agreements for users accessing computer systems, including the internet and email, but there are small anomalies between the two authorities' documents that may impact on control and enforcement of these policies. Audit examination of the use of emails confirmed that the email content was not deemed to be inappropriate and no further action was required.	Updated policies regarding email and internet use will be issued to staff later in the year. Managers have also been reminded that where music and radio are accessed from Council computers the site they are located should be appropriately licensed.
<b>Pest Control</b> Issued 02.07.2014	<b>Excellent</b> The Council is meeting its duties with respect to Pest Control, ensuring that the district is free of pests, by arranging for a pest control service to be provided externally.	The letting of the contract for the provision of the pest control service was carried out in accordance with Contract Procedure Rules. One minor issue was reported.

## Planned Audit 2014/15 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Sustainability</b> Issued 25.06.2014 <i>Joint audit with West Devon.</i></p>	<p><b>Good</b></p> <p>The focus of this audit has been on the internal sustainability of the Councils, as part of their day to day operations, not how they promote and facilitate sustainability within the communities across the district and borough.</p> <p>Whilst the Councils do not have a dedicated Sustainability policy, it is a cross cutting theme which runs through their priorities and many policies, either directly or indirectly.</p> <p><b>Economic / Business sustainability</b> is a key driver for the Councils, and indeed plays a large part in the T18 programme. The Councils are finding new and innovative ways to work more effectively whilst reducing costs. This approach means that by default there are some positive environmental sustainability effects.</p> <p>The Councils have a range of internal controls in place to ensure that statutory business objectives are met as well as those based on the Councils' priorities.</p> <p>These internal controls are assessed annually as required by legislation.</p> <p><b>Social / Community sustainability</b> is addressed by a range of internal policies and procedures which are in place to support staff in a work-life balance.</p> <p>These will continue to be developed as part of T18, which in itself will deliver work-life balance benefits for many staff, with a wider range of agile and flexible working arrangements being made available.</p> <p>The Healthy Lifestyles team have previously co-ordinated events with external partners, such as the promotion of alternative travel options for commuting and how to have a healthier lifestyle.</p> <p><i>Continued overleaf.</i></p>	<p>Business sustainability will be at the forefront of the Councils' considerations through the next few years as T18 is phased in.</p>

## Planned Audit 2014/15 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Sustainability (continued)</b>            Issued 25.06.2014  <i>Joint audit with West Devon.</i></p>	<p><b>Good</b></p> <p><b>Environmental sustainability</b> has been delivered at a range of levels, both voluntarily as well as in response to legislative requirements.</p> <p>However environmental sustainability does not tend to be a key driver at the current time unless it brings associated economic / business sustainability benefits or is required under legislation.</p> <p>Now there is no longer a Green Team it is possible that staff may lose focus of the small actions which can be taken every day to contribute to environmental sustainability, for example switching off lights, keeping heating as low as possible, managing water use etc.</p> <p>We understand that both Councils have fitted water saving devices (waterless urinals at SHDC and a rainwater harvesting system at WDBC). Other initiatives which have had environmental benefits as well as economic benefits include: the installation of energy saving devices in Council buildings; upgrading of refuse vehicles to more fuel efficient models; and recycling of paper waste generated by the Councils.</p> <p>Several opportunities to potentially improve sustainability, in all its senses, have been identified, including:</p> <ul style="list-style-type: none"> <li>• The need to ensure that staff using their own vehicles for business purposes are appropriately insured, have a valid MOT and driving licence etc;</li> <li>• Raising awareness and providing guidance to staff to embed sustainability in day to day activities including promoting car sharing; and</li> <li>• Incorporating consideration of sustainability into Corporate Procedure Rules.</li> </ul>	<p>The matter will be brought to SMT for discussion.</p> <p>A link on the Councils' Intranet to the DCC car sharing web page will bring this to the attention of all staff, and periodic reminders on energy use will be given to staff through the Friday Flash.</p> <p>Consideration of sustainability has been included in the revised Contract Procedure Rules at paragraph 10.3.</p>

## Planned Audit 2014/15 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Community Safety</b> Issued 02.07.2014 <i>Joint audit with West Devon.</i></p>	<p><b>Excellent</b></p> <p>The Council appears to be meeting its statutory duties with regards the Crime and Disorder Act 1998. It is a member of the South Devon and Dartmoor Community Safety Partnership (CSP), whose stated purpose is to provide proactive leadership in the drive to improve community safety across the districts of South Hams District West Devon Borough, and Teignbridge District Councils.</p> <p>Governance arrangements are in place and operating for the management of the Partnership.</p>	<p>Action plan agreed for the three minor recommendations made.</p>
<p><b>Environmental Initiatives</b> Including <b>South Devon Area of Outstanding Natural Beauty (AONB)</b> Issued 21.07.2014</p>	<p><b>Good</b></p> <p><b><i>Environmental Initiatives</i></b></p> <p>Besides the South Devon AONB, the Council makes a financial contribution to several environmental initiatives, e.g. Tamar Valley AONB (TV AONB) and Tamar Estuary Consultative Forum (TECF) and sits on the relevant Steering Group. In some cases the Council manages an element of a project on behalf of the partnership, e.g. Wembury Marine Centre building management.</p> <p>A signed Management Agreement and an aged unsigned Addendum were available to us for the Wembury Marine Centre (WMC), but we were unable to agree the contributions made by the Council to the budgets in these documents.</p> <p>For both the TECF &amp; TV AONB we understand that signed current partnership agreements are in place detailing agreed funding and responsibilities but these were not available to us at the time of the audit.</p> <p><b>AONB</b></p> <p><i>Continued overleaf.</i></p>	<p>The Council's contribution to the WMC needs to be reviewed as it receives a disproportionate amount of funding compared to some other partnerships.</p> <p>Officers will ensure that signed copies of Agreements are held for all Environmental Initiative partnerships which the Council enters into and that these are stored with the Councils' Legal Service.</p>



## Planned Audit 2014/15 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Environmental Initiatives including South Devon Area of Outstanding Natural Beauty (AONB)</b> Issued 21.07.2014 <i>Continued.</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 175</p>	<p><b>Good</b> <b>AONB</b></p> <p>The AONB partnership is well managed by the AONB Manager and his staff, with best practice being demonstrated in terms of governance arrangements for partnerships.</p> <p>The AONB receives income towards core costs from three organisations, Defra, SHDC and DCC, between whom there is a Memorandum of Agreement (MoA) in place.</p> <p>However, we are aware that the AONB is exposed to potential future financial risk when the current core funders MoA comes to an end on 31st March 2015.</p> <p>We understand that Defra, who provide 75% of core funding, are looking to further reduce their contribution. But also of significance is that they will no longer be prepared to indemnify the AONB against any future redundancy costs. The AONB would therefore have to bear such costs should they arise.</p> <p>Project funding is received from a wider range of sources. For projects delivered by a partnership which we reviewed there was a formal agreement in place. However we have been advised by the Natural Environment &amp; Recreation Manager that there is no Agreement in place for the SD AONB Estuaries Partnership. This body includes a range of partners beyond the core AONB Partnership.</p> <p>Arrangements are generally in place to draw down income in the form of funding on a timely basis.</p> <p>Controls are in place to manage funding from other sources such as events and sales of leaflets.</p> <p>Controls are generally in place and operating over expenditure, including the salary and on costs for members of the AONB staff unit.</p>	<p>This will be discussed with Finance. It is noted that a redundancy provision has already been made. It would be hoped that if required, DCC would contribute to any redundancy costs as they are a major funder, but this has not been confirmed.</p> <p>It is agreed that an Agreement should be in place to ensure the security of funding contributions, but officers are aware that one key funder has withdrawn from other similar partnerships rather than make a commitment through a Memorandum of Agreement.</p>

## Planned Audit 2014/15 – Final Reports Issued (continued)

Subject	Audit Findings	Management Response
<p><b>Land and Investment Properties</b> Issued 21.07.2014</p>	<p><b>Good</b></p> <p>The Council's list of land and investment properties that it receives an annual rent for is small compared to the other assets (Estates etc.) it is responsible for.</p> <p>The properties and assets are usually unique in nature.</p> <p>Examination of a sample of recent rents received, and tenant agreements, highlighted that for a number of properties the rent has not been formerly reviewed in line with the agreement.</p> <p>We reviewed the previous audit report, and have again reported the following recommendations;</p> <ul style="list-style-type: none"> <li>• That a review is undertaken of the process of raising debtors for land and investment properties as this is currently completed by Corporate Finance following instruction from Legal and Estates, rather than by the service direct as is the case in other areas.;</li> <li>• That a combined report is available for all Council assets to agree the annual charge and rates levied is in agreement to that declared in the Council's accounts; and</li> <li>• That insurance records are adequately checked by a Council officer for those assets that are insured by the tenant or relevant third party.</li> </ul>	<p>We have presented a number of options to members and so are evaluating the best preferences for the future.</p> <p>Agreed this is a process that needs to be considered during the T18 review.</p> <p>The current systems do not provide sufficient information and reliance is placed on processes completed by Corporate Finance. This needs to be considered as part of the T18 review.</p> <p>This process will need to be discussed and the other relevant service managers responsible for these assets to best determine the control and review of insurance arrangements.</p>

## Planned Audit 2014/15 – Work Complete (No Audit Report)

Subject	Comments
Exemptions to Financial Procedure Rules	See table at Appendix A.
RDPE Rural Communities – LAGs; and Coastal Communities Fund	See table at Appendix A, SHDC is the 'accountable body'. Auditing in line with the approach required by the funding body.
System of Internal Control (SIC), and Annual Governance Statement (AGS)	<p>A report setting out the work done to enable the 2013/14 AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2014 Audit Committee.</p> <p>The Committee approved the AGS on behalf of the Council as part of the process of approval of the Statement of Accounts and recommended that the Constitution be amended for the Audit Committee to have specific delegated powers to approve the AGS.</p> <p>The AGS is required to be updated to the date of publishing in September 2014 and a further report is made to the September 2014 Audit Committee.</p>

## Planned Audit 2014/15 – Follow Up with 2014/15 Audits

### September 2014 Audit Committee

Subject	Comments
Area of Outstanding Natural Beauty (AONB) – 2008/09	Implemented, although for one issue similar circumstances were noted.
Employment Estates and Investment Properties – 2007/08	Mainly implemented. 3/17 recommendations repeated, the most significant of which concerns raising of debtor invoices.
Community Safety – 2006/07	Implemented.
Pest Control – 2008/09	Implemented.
Sustainability – 2009/10	Mainly implemented. 11/61 recommendations repeated or superseded by events.
Coast Protection – 2008/09	Mainly implemented. 5/12 recommendations repeated, the most significant of which concerns the policy relating to inspection of defences and the management of Dartmouth Embankment.
Flood Defence and Land Drainage – 2007/08	Some implementation. 2/4 recommendations repeated, the most significant of which concerns the watercourse maintenance.
Internet and Email Use – 2013/14	Mainly implemented. 2/10 recommendations repeated, the most significant of which concerns a revised policy on internet and email usage.

## Planned Audit 2014/15 – Follow Up of 2013/14 Audits

Subject	Comments
Emergency Planning	Aligned process so followed up with 2014/15 audit at West Devon.

## Planned Audit 2014/15 – Follow Up of 2013/14 Audits (continued)

<b>Subject</b>	<b>Comments</b>
Planning Policy including S.106 Agreements	Memo sent, no reply to date. Meeting to be arranged.
Private Sector Housing Renewal	Confirmed implemented, and taken to annual audit July 2014.
Data Protection and Freedom of Information	Memo sent, no reply to date. Meeting to be arranged.
Beach and Water Safety	Confirmed implemented. No further action.
Partnership Management	Confirmed implemented. No further action.
Food Safety	Memo sent, no reply to date. Meeting to be arranged.
Community Grants and Loans	Confirmed implemented. No further action.
Use of Agency Staff	Memo sent, one reply to date. Meeting to be arranged with other officers.
Pollution Reduction	Memo sent, no reply to date. Meeting to be arranged.

## Unplanned Audit – 2014/15

### General

Description	Main Issues
<p>Minor enquiries and issues investigated, including some planned work, which by its nature does not require a report. Resourced from the <b>contingency</b> line of the audit plan.</p>	<ul style="list-style-type: none"> <li>• General procurement and disposal rules advice;</li> <li>• General ICT issues;</li> <li>• General Finance issues;</li> <li>• Advice and review of updated finance software including ordering system and creditor payments;</li> <li>• Housing Benefits risk based verification etc;</li> <li>• Document retention enquiries;</li> <li>• Additional individual internet and e-mail monitoring as requested my managers;</li> <li>• Salcombe Harbour – advice and assistance re new software;</li> <li>• Dartmouth Ferry – advice and assistance re new software;</li> <li>• Audit Commission fraud survey and other additional counter fraud publicity work;</li> <li>• T18 Transformation – various;</li> <li>• Advice re RDPE LAGs Accountable Body;</li> <li>• Numerous minor control issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies &amp; strategies.</li> </ul>

**This page is intentionally left blank**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 18 SEPTEMBER 2014**

<b>Members in attendance</b> * 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		

<b>Members in attendance and participating</b>
Cllrs H D Bastone, J M Hodgson and L A H Ward

<b>Members in attendance and not participating</b>
Cllr R J Tucker

<b>Item No</b>	<b>Minute Ref No below refers</b>	<b>Officers and Visitors in attendance</b>
All Items		Head of Finance and Audit, Chief Internal Auditor, Chief Accountant, Principal Accountant, Democratic Services Manager, Grant Thornton Audit Manager, Grant Thornton Engagement Lead and Devon Audit Partnership Manager

**A.14/14 WELCOME**

The Chairman welcomed Mr Rob Hutchins, Devon Audit Partnership Manager, to his first meeting of the Committee.

**A.15/14 MINUTES**

The minutes of the meeting held on 31 July 2014 were confirmed as a correct record and signed by the Chairman.

**A.16/14 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.17/14 ANNUAL GOVERNANCE STATEMENT 2013/14 - UPDATE**

The Committee was presented with a report that presented an update on the Annual Governance Statement 2013/14.

The report stated that the information had been previously considered by the Committee at its last meeting on 31 July 2014 (Minute A.13/14 refers). Officers confirmed that there had been one minor update to the report whereby the Medium Term Financial Strategy had been presented to the Executive in September and not October (page 26 of the presented agenda report refers).

During the discussion, it was highlighted that appendix B of the presented agenda report was incorrectly titled: 'West Devon Borough Council'. In reply, officers apologised for this oversight and gave assurances that this did not have any bearing on the substantive content of the paper and would be amended on the Council website.

It was then:

**RESOLVED**

That it be noted that no changes be required to the Annual Governance Statement (AGS) 2013/14 from the version considered and approved at the July 2014 Audit Committee meeting (Minute A.13/14 refers).

**A.18/14 ANNUAL STATEMENT OF ACCOUNTS 2013/14**

The Head of Finance and Audit presented the report which presented a summary of net revenue and capital expenditure and which sought approval for the audited statement of accounts 2013/14.

During the discussion, reference was made to:

- (a) the analysis of variations in income and expenditure. The Head of Finance and Audit responded to a number of specific queries in respect of these variations. In particular, the Committee noted that the T18 Programme had superseded the initial vacancy management strategy and, whilst the target had not been met for 2013/14, the consequent future savings would be far more significant. Moreover, Members recognised that due to the infrequent and sporadic need for external planning legal specialist advice, it was incredibly difficult to budget for this requirement and it would not be appropriate to employ an additional member of staff to meet this need;



- (b) the comprehensive income and expenditure statement. The Head of Finance and Audit also replied to a number of questions arising from the statement. Notably, the £6 million reduction in gross income and expenditure from 2012/13 to 2013/14 for central services to the public was attributed to the abolition of the Council Tax Benefits Scheme on 1 April 2013. Furthermore, the increase in gross income and expenditure for the environmental service largely related to an increase in expenditure (and income) for trade waste, recycling, public conveniences, coastal protection and pollution reduction;
- (c) global fiscal uncertainty. With regard to the assumptions made about the future and other major sources of estimation uncertainty, a Member queried whether global fiscal uncertainty should also be included. In response, it was concluded that since it would be so difficult to assess if actual results differed from assumptions and it being hard to quantify the impact, then it was not appropriate to include this factor at this time;
- (d) the short term debtor category 'Other entities and individuals'. In reply to a question, officers confirmed that they would establish some more information regarding this category and would provide these details to the Committee in due course;
- (e) the capital financing requirement. A Member asked for the comments in the accounts in respect of the Council 'not financing any of its capital expenditure by borrowing and as such its capital financing requirement being unchanged (at £98,000)' to be formally recorded;
- (f) the concluding comments contained in the Auditors' report. The Committee acknowledged the comments in respect of the Council 'having put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014' and wished to congratulate officers for their hard work and efforts in this regard.

It was then:

### **RESOLVED**

That the wording of the Letter of Representation (as presented at Appendix A of the presented agenda report) and the audited Statement of Accounts (as presented at Appendix B of the presented agenda report) be approved.

A.19/14

### **GRANT THORNTON – AUDIT FINDINGS FOR SOUTH HAMS DISTRICT COUNCIL**

The Engagement Lead (Grant Thornton) presented a report that highlighted the key matters arising from the audit of the Council's financial statements for the year ended 31 March 2014.

In summarising the report, the Engagement Lead (Grant Thornton) reiterated the acknowledgement whereby it was recognised that the audit was undertaken at a time of significant change and uncertainty within the finance team. In emphasising the point, Grant Thornton representatives wished to record their appreciation for the assistance provided by the finance team and other staff during the audit.

During the discussion, the following points were raised:

- (a) With regard to the internal control issues identified in relation to payroll processes and housing benefit debtors, the Committee endorsed the recommendations of Grant Thornton;
- (b) The Committee was of the view that the report was excellent and stated its appreciation for the input and feedback from Grant Thornton.

It was then

### **RESOLVED**

That the Audit Findings be noted.

A.20/14

### **INTERNAL AUDIT – REVISION OF AND PROGRESS AGAINST THE 2014/15 PLAN**

The Chief Internal Auditor presented a report that informed Members of the principal activities and findings of the Council's Internal Audit team for 2013/14 to the 31 July 2014.

In discussion, reference was made to:-

- (a) revisions to the Audit Plan. As a consequence of the imminent departure of the Chief Internal Auditor and the audit management then being supplied by the Devon Audit Partnership, the implications upon the originally approved 2014/15 Audit Plan were noted;
- (b) the anticipated guidance regarding the establishment of Independent Auditor Appointment Panels. The Committee was informed that the guidance was still awaited;
- (c) the future choice of External Auditor. The Head of Finance and Audit provided an update on the views of the Audit Commission regarding the future choice of External Auditor. Whilst the Commission had now agreed that the Auditor should be the same for both the Council and West Devon Borough Council, the recommended appointment for both councils was no longer Grant Thornton. This recommendation was out for consultation until 10 October 2014 and the Committee felt that, in light of the loss of corporate knowledge and the need for continuity at this stage of the transformation programme, strong representations should be made to the Commission urging them to re-appoint Grant Thornton to the role of External Auditors for both councils;

(d) the management of Dartmouth Embankment. The Committee expressed its deep frustrations that this matter continued to remain unresolved.

It was then:

**RESOLVED**

1. That the revisions to the 2014/15 Internal Audit Plan and the progress made against it be endorsed; and
2. That Council be **RECOMMENDED** that representations be sent to the Audit Commission which outline the Council's deep reservations regarding the recommendation to no longer appoint Grant Thornton as the Council's External Auditor.

A.21/14 **CHAIRMAN'S CONCLUDING REMARKS**

Since this was the last Audit Committee meeting before the Chief Internal Auditor left the employ of the Council, the Chairman wished to, on behalf of the Council, thank him for his hard work and dedication. The Chairman proceeded to wish him a long and happy retirement and stated his regret at his pending departure

In reply, the Chief Internal Auditor wished to formally thank all Members for their support and, in particular, the Committee Chairman for whom he had worked so closely during his fifteen years employ with the Council.

(Meeting commenced at 10.00 am and finished at 11.45 am)

---

Chairman

**This page is intentionally left blank**