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WEST DEVON AUDIT COMMITTEE - TUESDAY, 23RD SEPTEMBER, 2014

Agenda, Reports and Minutes for the meeting

Agenda No Item

1. **Agenda Letter** (Pages 1 - 6)

2. **Reports**

Reports to Audit:

- a) Item 5 - Annual Governance Statement 2013/14 - Update and Approval (Pages 7 - 30)
- b) Item 6 - Final Accounts 2013/14 (Pages 31 - 116)
- c) Item 7 - Audit Findings Report (Pages 117 - 142)
- d) Item 8 - Treasury Management - Annual Report 2013/2014 (Pages 143 - 158)
- e) Item 9 - Internal Audit - Revision of and progress against the 2014/2015 Plan (Pages 159 - 176)

3. **Minutes** (Pages 177 - 180)

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Agenda Item 1

AGENDA – AUDIT COMMITTEE – 23rd SEPTEMBER 2014

PART ONE – OPEN COMMITTEE

1. **Apologies for absence**

2. **Declaration of Interest**

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

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

3. **Items Requiring Urgent Attention**

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

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MINUTES

4. **Confirmation of Minutes**

Meeting held on 22nd July 2014

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OPERATIONAL

5. **Annual Governance Statement 2013/14 – Update and Approval**

Report of the Chief Internal Auditor

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6. **Final Accounts 2013/14**

Report of the Head of Finance

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7. **Audit Findings Report**

Report of Grant Thornton (External Auditors)

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8. **Treasury Management – Annual Report 2013/2014**

Report of the Accountant

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9. **Internal Audit – Revision of and progress against the 2014/2015 Plan**

Report of the Chief Internal Auditor

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

The Committee is recommended to pass the following resolution:

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

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

STRATEGIC RISK ASSESSMENT

Reports to Members

Members will be aware of the requirement to take account of strategic risk in decision making. This note is designed to support Members consider strategic risks as part of the assessment of reports from officers.

There are an increasing number of issues that we have a statutory requirement to take into account which affect all aspects of the Council's policies and service delivery (e.g. Human Rights Act). There are also discretionary issues we choose to highlight in our reports (e.g. Financial Implications, and Impact on Council Priorities and Targets). Common Law duty requires Local Authorities to take into account all things they need to take into account! The Courts hearing Judicial Review applications make this their starting point in deciding whether any decision is reasonable.

Officers have a responsibility to assess the implications of recommendations to Members. Members should ensure that before making a decision they have undertaken a similar consideration relating to the risks associated with the report.

Examples of risk to be considered:-

Statutory Requirement :

- Equalities and Discrimination, particularly Race Equality. (Consider the impact on each of the following equality areas: Race, Religion and Belief, Gender, Sexual Orientation, Disability, Age)
- Human Rights
- Crime and Disorder
- Health and Safety
- Employment Legislation
- Data Protection
- Freedom of Information
- Corporate activity with an impact on Areas of Outstanding Natural Beauty, National Parks, Sites of Special Scientific Interest, and biodiversity

Corporate Requirement :

- Impact on Council's Reputation
- Impact on Priorities, Cross-Cutting themes, Targets and / or Commitments
- Impact on Standing Orders / Financial Regulations
- Impact on Council's Assets
- Financial Risks
- Compliance with National Policies and Guidance
- Impact on Sustainability

Members' attention is drawn to the Risk Assessment section within each report. Members are encouraged to consider whether the report has satisfactorily identified all likely negative impacts and mitigating action that will be taken. Members also need to consider the opportunities presented by actions, noting that any change entails an element of risk. The challenge is to effectively manage that risk.

RISK SCORING MATRIX

Impact/Severity		Target impact	Stakeholder impact	Finance impact
1	Insignificant	Low impact on outcome & target achievement & service delivery	Low stakeholder concern	Low financial risk
2	Minor	Minor impact on outcome & target achievement & service delivery	Minor stakeholder concern	Minor financial risk
3	Moderate	Moderate outcome & target achievement & service delivery	Moderate stakeholder concern	Moderate financial risk
4	Serious	High impact on outcome & target achievement & service delivery	High stakeholder concern	High financial risk
5	Very serious	Very high impact on outcome & target achievement & service delivery	Very high stakeholder concern	Very high financial risk
Likelihood/Probability		Risk	Opportunity	
1	Very low	Negligible chance of occurrence; has not occurred	Possible opportunity yet to be investigated with low likelihood of success	
2	Low	Low chance of occurrence; has occurred infrequently but within internal control	Opportunity being investigated with low likelihood of success	
3	Medium	Equal chance of occurrence or non occurrence; could occur more than once and be difficult to control due to external influences	Opportunity may be achievable with careful management	
4	High	More likely to occur than not occur; has occurred more than once and difficult to control due to external influences	Good opportunity which may be realised	
5	Very high	Very high chance of occurrence but not a certainty; has occurred recently	Clear reliable opportunity with reasonable certainty of achievement	

Risk score = Impact/Severity x Likelihood/Probability

Likelihood	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
	0	1	2	3	4	5
Impact						

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NAME OF COMMITTEE	Audit Committee
DATE	23rd September 2014
REPORT TITLE	ANNUAL GOVERNANCE STATEMENT 2013/14 - Update
Joint Report of	Head of Finance and Audit (S.151 Officer), Monitoring Officer and Chief Internal Auditor
WARDS AFFECTED	All/Corporate

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 for 2013/14, the supporting process and assurance streams; to enable an updated version of the AGS to be approved by the Committee under delegation from the Council meeting of July 2014.

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.

The Accounts and Audit (Amendment) (England) Regulations 2011 require the Council to publish the Annual Governance Statement by the end of September with the audited Statement of Accounts. However, the AGS must be reviewed and updated to take account of any significant changes in the governance or control frameworks between the date of production and the publication date.

Financial implications:

Within existing budgets.

RECOMMENDATION:

It is recommended that Members approve the Annual Governance Statement (AGS) 2013/14 and note that there are no changes from the version considered at the July 2014 Audit Committee.

Officer contact:

Allan Goodman, Chief Internal Auditor: 01803 861375

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 updated version under the Delegation Scheme at the September 2014 meeting.
- 1.4 Agenda item 11 of the Council meeting of the 22nd July 2014 sought amendments to the Constitution. The Council resolved that the Council's Constitution be amended in accordance with the proposals as outlined in paragraphs 2.1 and 2.2.2 of the presented agenda report (minute reference CM 35), which proposed amending the Delegation Scheme to read '*Audit Committee – to oversee the System of Internal Control and the process for producing the Annual Governance Statement (AGS) and approve the AGS on behalf of the Council with the annual Statement of Accounts.*'.
- 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 at Appendix B remains unchanged from the version presented to the July 2014 Audit Committee.
- 2.3 The final draft 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

5.1 The risk management implications follow these considerations:

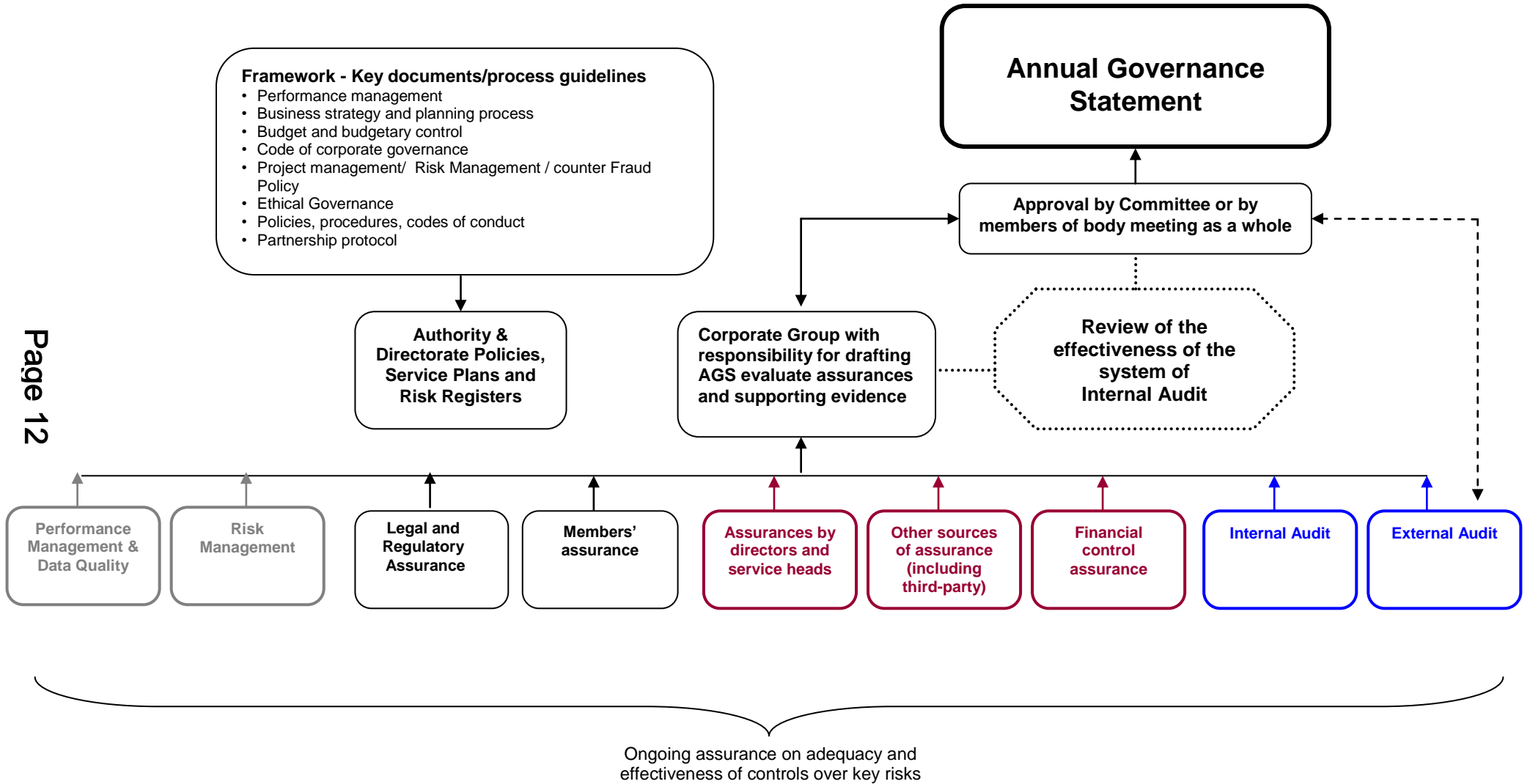
Corporate priorities engaged:	All/Corporate
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	<ul style="list-style-type: none">• Grant Thornton: Improving Council Governance 2013;• Code of Corporate Governance for West Devon Borough Council 2011• CIPFA/SOLACE (2007, 2010, 2012) Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities• Independent Commission on Good Governance in Public Services (2005): The Good Governance for Public Services• CIPFA/SOLACE document: Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)
Appendices attached:	Appendix A – Framework for the System of Internal Control and Annual Governance Statement (AGS) Appendix 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"> • Facilitate effective and efficient operation by enabling an appropriate response to significant business, operational, financial, compliance and other risks to achieving the Council's objectives (including the safeguarding of assets from inappropriate use, loss or fraud, and ensuring that liabilities are identified and managed); • Help ensure the quality of internal and external reporting. • Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business. 	-	-	-	-	Monitoring compliance of the Code of Corporate Governance and the System of Internal Control will feed the Annual Governance Statement (AGS) process and provide assurance to the community that a good governance framework is in place.	The Council Audit Committee Senior Management Team (SMT) S.151 Officer Monitoring Officer Chief Internal Auditor

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
2	System of Internal Control - Formal Identification of objectives, risks and related controls.	Senior managers may be unable to demonstrate that they have set their service objectives linked to those of the Council, identified the risks to achieving these service objectives and assessed the controls in place to mitigate the risks.	2	2	4	↔	Senior managers are aware that the service plan (Blueprint) 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

West Devon Borough 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.

West Devon Borough 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.westdevon.gov.uk, or can be obtained from the Chief Internal Auditor, West Devon Borough Council, Kilworthy Park, Tavistock, Devon PL19 0BZ.

This statement explains how West Devon Borough 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 West Devon Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at West Devon Borough 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 authority's vision of its purpose and intended outcomes for citizens and service users: and
2. Reviewing the authority's vision and its implications for the authority'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 'West Devon 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 **Connect Strategy** (further details at section 3 below) is produced by the **South Hams and West Devon Connect Partnership**, and 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 (10th June 2014). 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 (Overview and Scrutiny)** 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 period 2014/15 – 2017/18 was approved by the **Resources Committee** in September 2013. It is linked to the Council's priorities and has regard to 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 Resources Committee in October 2014.

Any Inspectorate reports received are acted upon.

The Council's **external auditor's latest 'Annual Audit Letter'** for 2012/13 was presented to the December 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'. The letters and reports are made available on the Council's website.

A report to a Special Council meeting in November 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 South Hams District 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 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.

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 on 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 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/disclosable interests has been provided.

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 26th June 2012 with a start date of the 1st July 2012. It is formally issued to each member individually following an election.

Part 3 of the Constitution, Delegation Scheme, gives the new Terms of Reference for the Council's Standards function, **the Standards Committee.**

An **updated version of the Member's Code** was presented to the Standards Committee in February 2014 and approval recommended to the Council. Adoption of this version is to be sought at the **Council meeting of July 2014.** In addition a review of the procedures for 'Dealing with Standards complaints' was presented to the same Committee.

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 Standards 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 to Officers**, which together with the **Contract Procedure Rules & Finance Procedure Rules, supporting procedure notes and manuals form a key part of the Council's control environment.** These are reviewed annually and updated as required. Financial Procedure Rules were reviewed, updated and aligned as far as possible with the South Hams District Council equivalent, with presentation to the Audit Committee in February 2013 and approval by Council, and updated Contract Procedure Rules have been recommended to the Council for approval by the June 2014 Audit Committee.

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 including strategic risks that are presented to the Audit Committee every 6 months, 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 9)

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 Audit Committees – Practical Guidance for Local Authorities:

Part 3 of the **Constitution sets out the functions of the Audit Committee**, which is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance and to oversee the financial reporting process and the effectiveness of the Treasury Management function.

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

Part 4 of the Constitution, **Council Procedure Rules**, sets out the membership requirements for the Audit Committee (increased for 2013/14) 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 9 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 other Council.

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 9 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 'Public Sector Internal Audit Standards'. Internal Audit is responsible for monitoring the quality and effectiveness of the Council's control and governance 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 for 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.

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 and 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** (Article 3) '**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

Within the **Constitution**, it is the **Overview and Scrutiny Committee's Terms of Reference that includes the monitoring of member development** and training against the development plan.

Immediately after any elections, a comprehensive Induction Programme is delivered for newly elected Members. The Induction covers the role of the Councillor, chairing skills, governance arrangements and processes etc. If they so wish, re-elected Members would be welcome to attend the induction sessions.

The Devon Member Development Officer, managed through the shared Democratic Services Manager, offered all newly elected Members a 'one to one' interview which helped to formulate a corporate training plan for Members, and also identify individual development needs which are to be drawn up into Personal Development Plans.

A joint West Devon/South Hams Steering Group was appointed by both Councils with a view to providing a joined up approach to member learning and development. The Steering Group drafted the WDBC Member Development Strategy which was adopted by the Council.

During the morning of Council meetings, time is set aside for member development sessions. Other ad hoc training is also provided as required and recorded on the web-site. Members receive a **weekly bulletin which provides an update on current issues, background information on training events and a range of other topics.**

Senior Officers

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

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

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

Part 4 of the **Constitution** includes the Council's '**Access to Information Procedure Rules**' which requires the Council to **provide the public with access to Agenda and Reports**. Meetings of Member bodies are scheduled using a calendar of meetings, and recorded through a system of Agendas and Minutes. These are available to view on the Council's website and Intranet, and are supplied to the press.

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 brings 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.

West Devon and South Hams 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 West Devon Borough Council on 17th April 2012 and South Hams District Council on 29th March 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, West Devon Connect, the magazine West Devon 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 (10th 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 South Hams District 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 authorities 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 8 of the Constitution allows the Council 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 Resources Committee 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 Effectiveness of the Governance Framework

West Devon Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The effectiveness of the governance framework is considered by an annual compliance review of the Council's Code of Corporate Governance with the results reported to a meeting of the Audit Committee (10th June 2014).

This and the review of effectiveness of the system of internal control is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

Responsibility	Responsible Party
<ul style="list-style-type: none"> To adopt and approve the Constitution and governance arrangements. Oversee the effective management of risk by officers of the Council. Maintain a system of internal control. Approve the Annual Governance Statement upon the recommendation of the 'delegated body'. 	<p>'The Relevant Body' - West Devon Borough Council</p>
<ul style="list-style-type: none"> Propose the budget and policy framework to the Council, including the Code of Corporate Governance etc. 	<p>Resources Committee</p>
<ul style="list-style-type: none"> Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and particular service areas. 	<p>Overview & Scrutiny Committee</p>
<ul style="list-style-type: none"> Monitor the effective development and operation of risk management and corporate governance in the Council. Consider: <ul style="list-style-type: none"> The annual review of the Constitution and recommend approval to the Council; The Council's arrangements for corporate governance and to ensure compliance with best practice; The effectiveness of the 'system of internal audit'. Including an annual self assessment of the effectiveness of the Committee; Internal audit's annual report and opinion, and summary of internal audit activity and the level of assurance it can give over the Council's corporate governance arrangements; and Oversee the production of the Council's Annual Governance Statement and recommend its approval 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. 	<p>Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks. Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. Regularly report on the operation of internal controls through the management team. 	<p>Heads of Service</p>
<ul style="list-style-type: none"> With the Chief Internal Auditor, complete a compliance review of the Code of Corporate Governance and System of Internal Control and produce the Annual Governance Statement for presentation to the Audit committee. These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. 	<p>S.151 and Monitoring Officers</p>
<ul style="list-style-type: none"> Review the effectiveness of the system of internal audit annually and report results to the Audit Committee. 	<p>Chief Internal Auditor</p>

Responsibility	Responsible Party
<ul style="list-style-type: none"> • Provide independent and objective assurance across the whole range of the Council's activities. • Present an annual internal audit report to the Council (Audit Committee) to include an opinion on the internal control environment, providing details of any weaknesses that qualify this opinion and issues relevant to the preparation of the AGS. 	Chief Internal Auditor
<ul style="list-style-type: none"> • Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities. 	Risk Management Group External Auditor Other Review Agencies/Inspectorates

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 2014);
- Effectiveness of the System of Internal Audit (Audit Committee – report to meeting of June 2014);
- Chief Internal Auditor's 'Opinion on the Adequacy of Internal Control' (Audit Committee – report to meeting of June 2014);
- 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.

Significant Governance Issues

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 (Audit Committee 10th June 2014):

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>Collaboration Agreement 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>Onward Delegation 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>Members Planning Code of Good Practice The Constitution may benefit from the inclusion of a 'Members Planning Code of Good Practice', which would aim to promote good practice and ensure that in the planning process there are no grounds for suggesting that a decision has been biased, partial or not well founded in any way.</p>	<p>The Monitoring Officer should arrange for a 'Members Planning Code of Good Practice' to be included in the Constitution, to be aligned as far as possible with an equivalent document at South Hams.</p>	<p>Monitoring Officer 31st December 2014 In time for 2015 Constitution update</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>Publicising Confidential Reporting 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 Implemented</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>Financial Uncertainty</p> <p>As Local Authorities experience reductions in funding, although West Devon Borough 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.</p> <p>A Medium Term Financial Strategy (MTFS) is to be presented to the Resources Committee in October 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.</p> <p>These include:</p> <ul style="list-style-type: none"> • T18 Transformation Programme. The programme will deliver new and very different ways of working (see above); • Strategic Asset Review; and • Income generation initiatives including a proposal to set up a trading company (report to Council – July 2014) 	<p>Senior Management Team S.151 Officer Ongoing</p>
<p>Business Rate Retention</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 Borough.</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 17th 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"> • For South Hams District Council to withdraw from the Pool for 2015-16 and; • 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. 	<p>S.151 Officer 2014/15</p> <p>S.151 Officer 2015/16</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Land Charges</p> <p>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.</p> <p>The authorities contend that charges were imposed in accordance with Regulations made by the Government and if those Regulations were unlawfully made, the Government should compensate.</p> <p>The costs are currently estimated to be £38,000 (plus interest and costs) which is substantially lower than the original estimates.</p> <p>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.</p> <p>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>
<p>Public Sector Internal Audit Standards</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>Internal and External Audit Reports</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>

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 P. R. Sanders
Leading Member,
on behalf of West Devon Borough Council**

Signed:

**Alan Robinson
Executive Director and Head of Paid Service,
on behalf of West Devon Borough Council**

NAME OF COMMITTEE	AUDIT
DATE	23 SEPTEMBER 2014
REPORT TITLE	AUDIT OF THE ANNUAL STATEMENT OF ACCOUNTS 2013/2014
Report of	HEAD OF FINANCE AND AUDIT
WARDS AFFECTED	ALL

Summary of report:

For Members to consider and review the Audited Statement of Accounts for 2013/14 and the Letter of Representation.

Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.

Following approval of its wording, the Chairman of the Audit Committee and the Head of Finance and Audit are required to sign the Letter of Representation from the external auditors, Grant Thornton.

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 consider and review the following reports and Appendices and make any recommendations to Council:-

- 1.1 Members approve the Financial Statements and the Technical Appendix. (shown in Appendix A)
- 1.2 Members approve the wording of the Letter of Representation (shown in Appendix B).

Officer contact:

Lisa Buckle, Head of Finance & Audit lisa.buckle@swdevon.gov.uk 01822 813644

1. BACKGROUND

- 1.1 The responsible financial officer of a larger body must, no later than 30th June immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a fair view of the financial position of the body at the end of the year to which it relates and that body's income and expenditure for that year. Also that, no later than 30th September in the year immediately following the end of the year to which the statement relates, consider by way of committee the statement of accounts.
- 1.2 The Council Constitution delegates approval of the Accounts to the Audit Committee.
- 1.3 The draft Statement of Accounts was presented to the Audit Committee on 22 July 2014. The Draft Statement of Accounts is required to be annually audited by the Council's external auditors, who give their opinion on the Draft Accounts. The annual audit took place in July and August 2014 by the Council's external auditors, Grant Thornton UK LLP.
- 1.4 Grant Thornton has audited the financial statements for the year ending 31st March 2014 under the Audit commission Act 1998. Post audit changes have been incorporated within the accounts in line with the recommendations contained within their "Audit Findings Report". (A separate agenda item).

2. ISSUES FOR CONSIDERATION

International Accounting Standard (IAS) 19 – “Employee Benefits”

- 2.1 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 accounts. 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

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. There is an underspend on the General Fund of £170,000 as per the Explanatory Foreword.

Capital Expenditure

- 2.3 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to around £490,084 in 2013/14 and is shown in the Explanatory Foreword.

2.4 Letter of Representation

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 and Audit are required to sign the Letter of Representation. The letter is attached at Appendix B. It is recommended that Members approve the wording of the Letter of Representation to be signed.

3. AUDITED STATEMENT OF ACCOUNTS FOR 2013/14

3.1 It is recommended that Members approve the final audited Statements of Accounts together with the Technical Appendix. (Appendix A)

4. LEGAL IMPLICATIONS

4.1 In Accordance with 2.27 of the Council's Finance Procedure Rules, the Head of Finance and Audit is responsible for ensuring that the Annual Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice.

5. FINANCIAL IMPLICATIONS

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

6. OTHER CONSIDERATIONS

Corporate priorities engaged:	Effective financial management underpins the achievement of all priorities
Statutory powers:	See Section 4
Considerations of equality and human rights:	None directly arising from this report
Biodiversity considerations:	None directly arising from this report
Sustainability considerations:	None directly arising from this report
Crime and disorder implications:	None directly arising from this report
Background papers:	Audit Committee – 22 July 2014 – Draft Statement of Accounts for 2013/14
Appendices attached:	Appendix A – Financial Statements and Technical Appendix 2013/14 Appendix B – Letter of Representation

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		
	Opportunity			-			
		To approve the accounts in line with the Statutory deadline.	3	1	3	The Council meets its statutory obligations by having procedures in place to fulfil this requirement.	The Head of Finance and Audit
	Risk						
		Failure to get the audited accounts approved by the Statutory deadline of 30 th September.	4	1	4	The external auditors have completed a thorough review of the Council's financial records and reported their findings.	The Head of Finance and Audit

APPENDIX A(i)

THE BOROUGH OF WEST DEVON

Statement of Accounts Audited

2013/2014

This information can be made available in large print, Braille, tape format or other languages upon request. West Devon Borough Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.

Contents for the Financial Statements

	Pages
1. Explanatory Foreword	1
• The Revenue Budget – Analysis of Variations	1
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Contents for the Technical Appendix to the Financial Statements

1. Financial Instruments and Capitalisation of Borrowing Costs	1
2. Defined Benefit Pension Schemes	3
3. Nature and Extent of Risks Arising from Financial Instruments	11

EXPLANATORY FOREWORD

INTRODUCTION

1. Each year West Devon Borough 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 Authority'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. Financial Performance against Budget in 2013/2014

There is a revenue underspend of £170,000 at the year end. This represents a significant achievement. This successful outcome is the result of much hard work by Council Members, officers and partner organisations. The underspend will be used to finance part of the investment in the Council's Transformation Programme (T18), details of which are on page 5.

The budget monitoring report to the Resources Committee on 28 January 2014 anticipated an underspend of £140,000 for the year. It is pleasing to note that the Council's budget monitoring throughout the year was accurate in forecasting the year end position.

Table 1 below provides an analysis of the year end variances against budget.

	Budget 2013/14	Budget variations increase/ (decrease)		
	£000	£000	£000	
Reduced expenditure/additional income				
Budget Scoured Savings 13/14	n/a	(200)		A
- Rationalisation of vacant posts (£68K)				
- Waste Collection depot costs (£35K)				
- Reduction in Home Improvement Agency specialist advice and Civil Contingencies Act (34K)				
- ICT Infrastructure savings (28K)				
- Other small operational savings				
Discretionary Rate Relief	55	(55)		B
Swimming Pool	373	(22)		C
Legal - Additional income	6	(10)		D
Other small underspends	n/a	(3)		
<i>Sub total</i>			(290)	

Increased expenditure/reduced income				
Reserve Bids in year	n/a	10		E
Planning Income	389	26		F
Land Charges Income	93	24		F
Investment income	45	20		G
Parish Funding – Public Conveniences	45	25		H
TIC additional income not achievable	30	15		I
<i>Sub total</i>			120	
ACTUAL UNDERSPEND			(170)	

TABLE 1: 2013/14 BUDGET OUTTURN

Notes

- A. **Budget Scoured Savings** - The Council has saved all of the scoured savings in the year, amounting to £200,000.
- B. **Discretionary Rate Relief (DRR)** – New accounting arrangements have been introduced which mean that the charge previously made to the General Fund is no longer required. The costs of DRR will now be met from the Business Rates Retention Scheme in 2013/14.
- C. **Swimming Pool** – The Council obtained the anticipated budget savings of £22,000.
- D. **Legal** – The Council has provided legal services to another Devon Council, generating £10,000 of additional income.
- E. **Reserve Bids in the year** – A bid to reserves in the year totals approximately £10,000. This is for work in Planning with respect to a specialist viability appraisal.
- F. **Planning and local land charges income** – The combined reduction in income has resulted in an over spend of £50,000. (£26,000 and £24,000 respectively)
- G. **Investment Income** – As with last year due to the low interest rates, investment income is under target. However the return on the investments is 0.42%, still higher than the benchmark of 0.39%.
- H. **Parish Funding** – The income budget for contributions from Parishes towards Public Conveniences has historically been set at £45,000 whereas actual levels achieved are around £20,000. A cost pressure of £25,000 has been built into the budget process for 2014/15 to realign the income budget with actual income achievable.
- I. **TIC** – The total budget increase predicted for TIC income was £15,000, which was not achieved.

4. The financial standing of the Authority remains sound and sustainable when moving forward despite significant pressures associated with Government funding reductions. General Fund Revenue Reserves have decreased by £77,000 and stand at £953,000. This is a level which is considered prudent and not excessive as it is sufficient to cover just under two months of continuing operations. The movement in Reserves is detailed in Section 2a.
5. The audited Statement of Accounts for 2013/2014 were certified by the Head of Finance and Audit on 30 June 2014. The Statement of Accounts were then reviewed by the Audit Committee on 22nd July 2014 and the audited accounts were authorised for issue on 23rd 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.

Savings from Shared Services

6. The arrangements for shared services continue to be a crucial component of the Council's Financial Strategy. The Council continues to share staff with South Hams District 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.
7. Both West Devon and South Hams 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

8. International Accounting Standard 19 (IAS19) requires Local Authorities to recognise pension assets and liabilities within their accounts. The pension fund liability at 31 March 2014 is estimated at £17.5 million which compares with £18.2 million at 31 March 2013. The decrease in the net deficit is mainly due to the fact that the actuarial assumptions used to value the liabilities have moved favourably and return on assets was more than expected last year. This has resulted in an overall actuarial gain for the year of £1.265m which has been charged to the Consolidated Income and Expenditure Account.

Capital spending

9. The Authority spent £490,084 on capital projects. The main areas of expenditure were as follows:
 - Housing renovation grants and disabled facility grants
 - Community projects, namely village hall and parish project grants

10. The capital programme is funded from capital receipts, capital grants and external contributions and earmarked reserves. An analysis of the programme and how it is funded is shown below:

Funding:		Spent on:	
Earmarked Reserves	0	Fixed Assets	0
Capital Grants	178	Intangible Assets	0
Capital Receipts and Funds Reserves	312	Revenue Expenditure Funded From Capital (REFCUS)	490
	490		490

11. 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 Authority to build up funds to meet known and potential financial commitments.
12. General Revenue Reserves have decreased by £77,000 from the preceding year and stand at £953,000 at 31 March 2014. The Medium Term Financial Strategy recommends a minimum level of general fund reserves of £750,000. Revenue reserves may be used to finance capital or revenue spending plans. The table below reconciles the movement on the reserves:

The Use of General Reserves	2013/14
Balance Bfwd 1.4.2013	1030
Revenue Outturn Underspend	170
Revenue Reserves Earmarked for Transformation Programme	(260)
Earmarked Reserves released to general reserves	13
Level of unearmarked general fund reserves at 31.3.2014	953
Earmarked revenue reserves (see note 6 to the financial statements)	1,930

13. In addition to the £2.883m of usable revenue reserves set out in the table above, the Authority has £0.743m in a capital receipts reserve which is available to fund future capital expenditure. These two totals represent the £3.626m of Usable Reserves which are shown in the Balance Sheet.
14. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure.
15. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to

the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £17.498 million at 31 March 2014. This disclosure follows the implementation of the International Reporting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.

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

LOOKING FORWARD TO THE FUTURE

17. 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 Resources Committee at its October 2014 meeting.

18. **Transformation Programme (T18)**

The Council continues to face significant reductions in Central Government funding. Because of the unprecedented scale of financial challenges in the next few years, the Council has embarked on a Transformation Programme 2018 (T18).

T18 is viewed as the primary driver to achieve the savings required over the next few years. This is a joint transformation programme with South Hams District 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.

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.

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.

Both Councils have now made the decision to proceed with the programme (November 2013) and the major financial implication the Council has agreed to, is to “Approve an investment budget of £1.9 million for the T18 Programme (WDBC’s share of the overall budget of £4.85 million), to deliver annual recurring revenue savings of £1.3 million (WDBC’s share of the savings of £3.8 million)”. The payback period for the Programme is 2 years.

19. Localisation of Business Rates

The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the Business Rates generated in their area, with effect from 1 April 2013.

There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline. 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, West Devon Borough Council agreed to be part of a Devonwide pooling arrangement and the pooling gain achieved in the first year has equated to £24,447.

In line with good financial management principles, a provision has been made in the Accounts 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 and on advice from them about the likely success rate of appeals.

Lisa Buckle, Bsc ACA Head of Finance and Audit

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 purposes. The Net Increase/Decreases before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Comparatives 31/3/13
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2013 carried forward	1,030	664	1,055	2,749	3,456	6,205	6,194
<u>Movement in Reserves during 2013/14</u>							
Surplus or (deficit) on provision of services	(2,489)			(2,489)		(2,489)	(802)
Other Comprehensive Income and Expenditure					2,085	2,085	813
Total Comprehensive Income and Expenditure	(2,489)			(2,489)	2,085	(404)	11
Adjustments between accounting basis & funding basis under regulations (Note 5)	3,678		(312)	3,366	(3,366)		
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,189		(312)	877	(1,281)	(404)	11
Transfers (to) / from Earmarked Reserves (Note 6)	(1,266)	1,266					
Increase/(Decrease) in Year	(77)	1,266	(312)	877	(1,281)	(404)	11
Balance at 31 March 2014	953	1,930	743	3,626	2,175	5,801	6,205

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				2013/14		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
0	0	0	Public Health	0	(20)	(20)
5,403	(4,437)	966	Central services to the public	1,297	(272)	1,025
7,316	(1,629)	5,687	Cultural, environmental, regulatory and planning services	7,406	(1,999)	5,407
724	(1,006)	(282)	Highways and transport services	660	(985)	(325)
15,872	(14,304)	1,568	Housing services	15,815	(14,926)	889
4,106	(3,043)	1,063	Corporate & Democratic Core	4,355	(3,188)	1,167
120	0	120	Non Distributed Costs	102	0	102
			Exceptional Item (Note 3)	1,950	0	1,950
33,541	(24,419)	9,122	Cost Of Services	31,585	(21,390)	10,195
1,140		1,140	Other Operating Expenditure (Note 7)	1,064	0	1,064
863	(40)	823	Financing & Investment Income (Note 8)	874	(28)	846
0	(10,283)	(10,283)	Taxation & Non specific Grant Income (Note 9)	3,229	(12,845)	(9,616)
35,544	(34,742)	802*	(Surplus) or Deficit on Provision of Services	36,752	(34,263)	2,489
		(1,659)	(Surplus) or deficit on revaluation of non current assets			(820)
		846	Actuarial (gains) /losses on pension assets/liabilities			(1,265)
		(813)	Other Comprehensive Income and Expenditure			(2,085)
		(11)	Total Comprehensive Income and Expenditure			404

* had IAS19 standard applied

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

31 March 2013		Notes		31 March 2014
£000				£000
23,378	Property, Plant & Equipment	10		21,742
92	Intangible Assets	11		62
0	Heritage Assets	10		0
1	Long Term Investments	T.A*		2
145	Long Term Debtors	12		142
23,616	Long Term Assets			21,948
8	Inventory			6
2,552	Short Term Debtors	12		3,094
2,787	Cash and Cash Equivalents	13		3,274
5,347	Current Assets			6,374
(2,185)	Short Term Creditors	14		(2,387)
(15)	Short Term Borrowing	T.A*		(16)
(2,200)	Current Liabilities			(2,403)
(30)	Other Long Term Creditors	14		(37)
(2,100)	Long Term Borrowing	T.A*		(2,100)
(18,215)	Pension Fund Liabilities	T.A*		(17,498)
(213)	Capital Grants Receipts in Advance	27		(483)
(20,558)	Long Term Liabilities			(20,118)
6,205	Total Net Assets			5,801
2,749	Usable Reserves	Page 7		3,626
3,456	Unusable Reserves	16		2,175
6,205	Total Reserves			5,801

*T.A – Technical Appendix to the financial statements

The unaudited accounts were issued on 30th June 2014. The audited accounts were issued on 23rd September 2014.

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.

2012/13 £000		2013/14 £000
(802)	Net (surplus) or deficit on the provision of services	(2,489)
2,340	Adjustments to net surplus or deficit on the provision of services for non cash movements (Note 17)	2,841
(1,174)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	978
(56)	Net cash flows from Operating Activities (Note 17)	(68)
1,665	Investing Activities (Note 18)	(591)
(1,424)	Financing Activities (Note 19)	(184)
549	Net increase or decrease in cash and cash equivalents	487
2,238	Cash and cash equivalents at the beginning of the reporting period	2,787
2,787	Cash and cash equivalents at the end of the reporting period (Note 13)	3,274

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NOTES TO THE ACCOUNTS

1. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) has introduced some changes in accounting policies which may need 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. This results from a new / amended standard that has been issued, but is not yet required to be adopted by the Authority. The following changes are not considered to have a significant impact on the Accounts:

- a) **IAS 1 Presentation of Financial Statements – a presentational change that requires items of ‘Other Comprehensive Income and Expenditure’ to be grouped into those that may in future years be reclassified into the ‘Surplus/Deficit on the Provision of Services,’ and those that will never be reclassified. As these changes are presentational there is no impact on the reported amounts.**
- b) **IFRS 7 Financial Instruments Disclosures – this standard clarifies the rules for offsetting financial assets and liabilities, and requires new disclosures. The new standard will have no effect for 2013/14 as the Authority does not currently have any such offsetting of financial assets and liabilities.**

IAS 12 Deferred Tax : Recovery of Underlying Assets – this standard relates to Group Accounts and is therefore not currently relevant to West Devon Borough Council.

IAS 19 Employee Benefits - The International Accounting Standards Board (IASB) published a revised IAS 19 standard in June 2011 which is intended to simplify and improve the quality of disclosures made about employee benefits plans (pensions). It will also have a real impact on the disclosed profits of companies with defined benefit plans. The new standard was formally endorsed by the EU in June 2013 and is effective for accounting periods beginning on or after 1 January 2014, so does not affect the disclosures for 2013/14 (although early adoption is permitted).

The main changes that affect the Profit and Loss Charge 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;
- 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 Profit and Loss charge; previously a deduction was made to the actual and expected returns on assets.

The impact of the revised standard had it been applied in 2013/2014 is provided in the restated figures shown in the pension notes in these financial statements.

2. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

3. Material Items of Income and Expenditure

Where items of income and expenditure are material, the Authority should disclose their nature and amount separately (International Accounting Standard 1: Presentation of Financial Statements). In 2013/2014 the Authority underwent a revaluation exercise for all of the Council's assets. This resulted in net revaluations of £1,950,000 being charged to the Comprehensive Income and Expenditure Statement, within the Cost of Services. This is the revaluation of Kilworthy Park. Full details of the revaluations can be found in the fixed asset note in Note 10 to the financial statements. As this amount is material it has been shown as an exceptional item on the face of the Financial Statements.

Prior Period Adjustments

Employee Benefits - The code includes the revisions as a result of the June 2011 amendments to International Accounting Standards 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.

4. Events After the Balance Sheet Date

The draft Statement of Accounts for 2013/2014 were certified by the Head of Finance and Audit on 30 June 2014. The Statement of Accounts were then reviewed by the Audit Committee on 22nd July 2014 and the audited accounts were authorised for issue on 23rd 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 requires disclosure.

5. 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				
	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Usable Reserves
	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income & Expenditure (I&E) Statement:					
Charges for depreciation and impairment of non current assets	505				505
Revaluation losses on Property Plant and Equipment	1,950				1,950
Amortisation of intangible assets	30				30
Revenue expenditure funded from capital under statute	491				491
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive I&E Statement	0				0
Insertion of items not debited or credited to the Comprehensive I&E Statement:					
Statutory provision for the financing of capital investment					
Capital grants and contributions applied	(178)				(178)
Adjustments primarily involving the Capital Grants unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive I&E Statement					
Adjustments primarily involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure			(312)		(312)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive I & E Statement	1,589				1,589
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,040)				(1,040)
Adjustments involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive I & E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(15)				(15)
Amount by which business rates income credited to the Comprehensive I & E Statement is different from council tax income calculated for the year in accordance with statutory requirements	346				346
Adjustment involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the Comprehensive I & E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements					
Total Adjustments	3,678		(312)		3,366

6. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance 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

General Fund:	Balance at 31 March 2013	Transfers Out 2013/14	Transfers In 2013/14	Balance at 31 March 2014
	£000	£000	£000	£000
Transformation Programme (T18)	0	60	(860)	(800)
Business Rates Retention Scheme	0		(321)	(321)
Car Parking Maintenance	(182)		(70)	(252)
New Homes Bonus 13/14	0	953	(1,038)	(85)
Sparsity Grant and additional Revenue Support Grant	0		(57)	(57)
Local Authority Business Growth Incentive (LABGI)	(43)			(43)
Habitats Earmarked Reserve	(51)	9		(42)
Waste Management	(40)			(40)
Revenue Grant	(34)			(34)
New Homes Bonus 12/13	(52)	25		(27)
Contingency Funding 13/14			(25)	(25)
Cannons Meadow	(27)	3		(24)
County Election	(73)	49		(24)
Landscape Maintenance	(20)			(20)
Fifth Wave Neighbourhood	(20)			(20)
DCLG Business Support Scheme	0		(20)	(20)
DCC Public Health 102505	0		(20)	(20)
Other Reserves below £15,000	(122)	73	(27)	(76)
TOTAL	(664)	1,172	(2,438)	(1,930)

Transformation Programme (T18)

On 4 November 2013, Council agreed to finance the investment costs of £860,000 for the Transformation Programme 2018. The £860,000 transferred in relates to £400,000 from New Homes Bonus, £200,000 from Unearmarked Revenue Reserves, £200,000 from Capital Resources and £60,000 savings from the scouring exercise, in accordance with the Investment and Financing Strategy set out in the report. The Transformation Programme is described in the Explanatory Foreword to the Accounts.

Business Rates Retention Scheme

The non domestic rates reserve covers any possible funding issues from the new accounting arrangements.

Car Parking Maintenance

In line with the Council's car parking strategy, a car parking maintenance reserve is maintained to ensure that major planned works on car parks can be carried out at the appropriate time, in line with a cyclical programme of maintenance and repairs.

New Homes Bonus 13/14

This represents the remaining unallocated New Homes Bonus funding from 2013/14.

The detail of the New Homes Bonus funding for 2013/14 was set out in the Council report of 18 February 2014.

Sparsity Grant and additional Revenue Support Grant

The Council received a sparsity grant in 2013/14 to recognise the additional cost of delivering services in a sparsely populated areas. The Council also received a small amount of additional Revenue Support Grant.

7. Other Operating Expenditure

2012/13		2013/14
£000		£000
1,140	Parish council precepts	1,052
0	Pension Administration costs	12
1,140	Total	1,064

8. Financing and Investment Income and Expenditure

2012/13		2013/14
£000		£000
96	Interest payable and similar charges	96
767*	Pensions interest cost and expected return on pension assets	778
(40)	Interest receivable and similar income	(28)
823	Total	846

*Reinstated due to the change in IAS19

9. Taxation and Non Specific Grant Income

2012/13		2013/14
£000		£000
5,280	Council Tax income (inc Parish Precepts)	4,941
0	Non domestic Rates (NNDR)	1,154
3,024	Non-ringfenced government grants	2,483
892	New Homes Bonus	1,038
100	Council Tax Freeze grant	0
987	Capital grants and contributions	0
10,283	Total	9,616

10. Property, Plant and Equipment

There have been no further heritage assets recognised in the 2013/14 financial statements.

	Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Total Property, Plant and Equipment	Total Property, Plant and Equipment (comparative 31/03/13)
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2013	23,397	2,349	1,074	83	26,903	25,428
Additions						78
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(157)				(157)	1,468
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,509)				(2,509)	(71)
Other movements in Cost or Valuation						
As at 31 March 2014	20,731	2,349	1,074	83	24,237	26,903
Accumulated Depreciation and Impairment						
At 1 April 2013	(1,222)	(2,084)	(219)	0	(3,525)	(3,097)
Depreciation charge	(349)	(135)	(21)		(505)	(550)
Depreciation written out to the Revaluation Reserve	977				977	122
Depreciation written out to the Surplus/Deficit on the Provision of Services	558				558	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services						
As at 31 March 2014	(36)	(2,219)	(240)	0	(2,495)	(3,525)
Net Book Value						
At 31 March 2014	20,695	130	834	83	21,742	23,378
At 31 March 2013	22,175	265	855	83	23,378	22,331

An external independent valuer, Jones LangLasalle, revalued the Authority's asset portfolio as at 31 March 2014.

Non-Specialised operational properties were valued on the basis of existing use value (EUV). Specialised operational properties were valued on the basis of depreciated replacement costs (DRC). A de minimus level of £10,000 was set. Infrastructure assets are on a historical cost (HC) basis, whilst vehicles, plant and equipment are held on historical costs as a proxy for current value.

The revaluation basis for Kilworthy Park was reconsidered in 2012/13 and it was valued at depreciated replacement cost (DRC) in the accounts. This basis was previously advised by the Authority's valuers, King Sturge, in 2010, on the basis that the offices at Kilworthy Park were 'specialist' in nature and that they have no, or very limited, alternative uses. Now that the Transformation Programme is under way (which is looking critically at the accommodation for the two authorities) work has begun to look at rationalising the accommodation between the two authorities (West Devon and South Hams District Council) and so the decision has been taken to change the valuation basis. Kilworthy Park has been valued at "existing use value" except for the more recently constructed council chamber "pod" which was designed specifically to meet the Council's requirements for public enquiry space on the ground floor and a council chamber on the first floor. The accommodation is effectively a self-contained unit and due to the specialist nature, this part of the property has been valued to "depreciated replacement cost". As the transformation progresses the valuation basis will need to be consistently analysed to ensure that the basis reflects the current operational changes. The valuation basis will be reconsidered in the Financial Statements to 31st March 2015.

Heritage Assets

The Old Mill site was identified as a Heritage Asset and the valuation as at 31 March 2011, by King Sturge, recommended that the asset should be valued on an existing use value (EUV) basis and that the result of the valuation was a de minimus level. This is mainly due to the site being subject to various legal and environmental constraints and caveats.

11. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets would include both purchased licenses and internally generated software.

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 lives 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 £30,771 charged to revenue in 2013/14 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

	2012/13	2013/14
	£000	£000
Balance at start of year:		
• Gross carrying amounts	881	973
• Accumulated amortisation	(878)	(881)
Net carrying amount at start of year	3	92
Assets reclassified	0	0
Additions	92	0
Impairment losses recognised or reversed directly in the Revaluation Reserve	0	0
Amortisation for the period	(3)	(30)
Net carrying amount at end of year	92	62
Comprising:		
• Gross Carrying amounts	973	973
• Accumulated amortisation	(881)	(911)
	92	62

12. Debtors

	Short Term	
31 March 2013		31 March 2014
£000		£000
361	Central government bodies	1,187
773	Other local authorities	727
0	NHS bodies	0
0	Public corporations and trading funds	0
1,418	Other entities and individuals	1,180
2,552	Total	3,094
	Long Term	
13	Other entities and individuals	10
132	Central Government bodies	132
145	Total	142

13. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2013		31 March 2014
£000		£000
1,789	Bank current accounts	1,274
(2)	Current account overdraft	0
1,000	Short-term deposits	2,000
2,787	Total Cash & Cash Equivalents	3,274

14. Creditors

31 March 2013	Short Term	31 March 2014
£000		£000
5	Central government bodies	301
402	Other local authorities	490
10	NHS bodies	2
1,183	Other entities and individuals	1,545
416	Precepting Authorities	0
52	National Non-Domestic Rates	0
117	Collection Fund	49
2,185	Total	2,387
	Long Term	
30	Other entities and individuals	37

15. Usable Reserves

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

16. Unusable Reserves

31 March 2013		31 March 2014
£000		£000
4,982	Revaluation Reserve	5,701
16,646	Capital Adjustment Account	14,261
(18,215)	Pensions Reserve	(17,498)
119	Collection Fund Adjustment Account Council Tax	134
0	Collection Fund Adjustment Account NNDR	(347)
(76)	Accumulated Absences Account	(76)
3,456	Total Unusable Reserves	2,175

Revaluation Reserve

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

- a. Revalued downwards or impaired and the gains are lost
- b. Used in the provision of services and the gains are consumed through depreciation, or
- c. 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.

2012/13 £000		2013/14 £000
3,717	Balance at 1 April	4,982
1,469	Upwards/(Downward) revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	820
(204)	Difference between fair value depreciation and historical cost depreciation	(101)
4,982	Balance at 31 March	5,701

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference 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
16,764	Balance at 1 April	16,646
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(550)	• Charges for depreciation and impairment of non current assets	(505)
3	• Revaluation losses on Property, Plant and Equipment	(1,950)
(3)	• Amortisation of intangible assets	(30)
(481)	• Revenue expended from capital under statute	(491)
(1,031)		(2,976)
204	Adjusting amounts written out of the Revaluation Reserve	101
121	Net written out amount of the cost of non current assets consumed in the year	
	Capital financing applied in the year:	
495	• Use of the Capital Receipts Reserve to finance new capital expenditure	312
	• Capital grants, credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	178
57	• Application of grants to capital financing from the Capital Grants Unapplied Account	0
36	• Revenue contribution to finance capital	0

913		591
16,646	Balance at 31 March	14,261

Pensions Reserve

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

2012/13		2013/14
£000		£000
17,093	Balance at 1 April	18,214
1,009	Actuarial gains or losses on pensions assets and liabilities	(1,265)
1,342	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	1,589
(1,230)	Employer's pensions contributions and direct payments to pensioners payable in the year	(1,040)
0	Provision for Strain Payments – Senior Management Review	
18,214	Balance at 31 March The actual figure for 2012/13 is £18,214,590	17,498

Collection Fund Adjustment Account Council Tax

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

2012/13		2013/14
£000		£000
233	Balance at 1 April	119
(114)	Amount by which Council Tax income credited to the Comprehensive income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	15
119	Balance at 31 March	134

Collection Fund Adjustment Account Business Rates

The Business Rates (NNDR) Collection Fund Adjustment Account manages the differences arising from the recognition of Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from ratepayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31 March 2013		31 March 2014
£000		£000
-	Balance at 1 April	-
-	Amount by which non domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from non domestic rates income calculated for the year in accordance with statutory requirements	(347)
-	Balance at 31 March	(347)

17. Cash Flow Statement – Operating Activities

Adjustments to net surplus or deficit on the provision of services for non cash movements.

2012/13		2013/14
£000		£000
553	Depreciation	535
71	Impairment, downward valuations & revaluation reversals	1,950
243	(Increase)/decrease in creditors	23
(16)	Increase/(decrease) in debtors	(635)
(3)	Increase/(decrease) in inventories	2
1,505	Movement in pension liability	1,589
480	Revenue expenditure funded from capital under statute (REFCUS) financed from capital receipts	312
18	Contributions to reserves	(1,266)
(511)	Other non cash items charged to the net surplus or deficit on the provision of services	331
2,340		2,841

The cash flows for operating activities include the following items:

2012/13		2013/14
£000		£000
40	Interest received	28
(96)	Interest paid	(96)
(56)	Total	(68)

18. Cash Flow Statement – Investing Activities

2012/13		2013/14
£000		£000
(1,422)	Purchase of property, plant and equipment, investment property and intangible assets	(86)
1,500	Net (increase)/decrease in investments	(1,000)

1,587	Other receipts from investing activities	495
1,665	Net cash flows from investing activities	(591)

19. Cash Flow Statement – Financing Activities

2012/13 £000		2013/14 £000
(788)	Net NNDR Receipts Paid to/(received) from Central Government	520
(636)	Net Council Tax receipts paid to/(received) from major preceptors	(704)
(1,424)	Net cash flows from financing activities	(184)

20. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Resources Committee on the basis of budget reports analysed across committees. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Expenditure on some support services is budgeted for centrally and not charged to committees
-

The income and expenditure of the Authority's principal committees recorded in the budget reports for the year is as follows:

	Central Services	Cultural, Environmental & Planning	Highways, Roads & Transport	Housing	Corporate & Democratic Core	Public Health	Non Distributed Costs	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service income	(272)	(1,999)	(985)	(580)	(3,188)	(20)	0	(7,044)
Government grants and contributions	0	0	0	(14,346)	0	0	0	(14,346)

	Central Services	Cultural, Environmental & Planning	Highways, Roads & Transport	Housing	Corporate & Democratic Core	Public Health	Non Distributed Costs	Total
Total Income	(272)	(1,999)	(985)	(14,926)	(3,188)	(20)	0	(21,390)
Employee expenses	500	2,374	196	559	2,731	0	102	6,462
Adjustment re pension liability								
Other service expenses	291	3,790	335	14,834	1,379	0	0	20,629
Support Service recharges	506	1,242	129	422	245	0	0	2,544
Total Expenditure	1,297	7,406	660	15,815	4,355	0	102	29,635
Net Expenditure	1,025	5,407	(325)	889	1,167	(20)	102	8,245

21. Trading Operations

The Building (Local Authority Charges) Regulations 1998 requires 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>

22. Business Improvement Districts

The Tavistock Business Improvement District (BID) was set up in Tavistock on the 1st September 2011 for the purpose of providing additional services or improvements to the Tavistock BID area. The BID is funded in part by a levy which is based on the rateable value of each property within the BID area and this is charged in addition to the non-domestic rates. West Devon Borough Council acts as agent for the BID Company and bills, collects and pays over the BID levy.

	Tavistock BID – Total 2012-13 £000	Total 2013-14 £000
Balance as at 1 st April	14	13
Levy raised for the year	69	72
Amounts Receivable for the year	69	72
Cash Received in year (net of refunds)	(70)	(67)
Amounts owing to BID as at 31 st March	(13)	(18)
BID Revenue Accounts were as follows:		
Balance as at 31 st March	(6)	(13)

BID revenues from levy	(70)	(67)
Less - Net payments to BID	63	73
Balance 31 st March	(13)	(7)

23. Agency Services

(a) The Authority carries out civil parking enforcement service on behalf of Devon County Council. The staffing and other costs incurred are reimbursed by Devon County Council.

	2012/13 £000	2013/14 £000
Expenditure incurred in carrying out the civil parking enforcement service	87	49
Management fee payable by Devon County Council	(87)	(49)
Net surplus arising on the agency arrangement	0	0

(b) The Authority collect land charge search fees on behalf of Devon County Council. These fees are reimbursed to the County Council on a periodic basis. The amount collected was £15,000 in 2013/14 (£15,000 in 2012/13).

(c) The Authority Acts as an agent for Devon County Council, Devon and Cornwall Police Authority and Devon & Somerset Fire & Rescue Authority in the collection of council tax and for Central Government for the collection of Non Domestic Business Rates. Details can be found in the collection Fund on pages 49 to 52.

(d) Under the provisions of The Business Improvements Districts (England) Regulations 2004, the Authority provides agency services for the Tavistock BID. The amount paid to the Bid in 2013/14 was £72,000.

24. Members' Allowances

The Authority has paid the following amounts relating to Members' Allowances:

	2012/13 £'000	2013/14 £'000
Members' Allowances	165	169
Travelling & Subsistence	21	23

The current allowance scheme can be found on the Authority's website at:

<http://wdbcweb.swdevon.lan/article/3695/Councillor-Allowances>

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.

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

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

In March 2011, a new management team, shared with South Hams District Council was appointed. From 1 April 2011, two Corporate Directors and seven Heads of Service now work across both Authorities.

The salary costs of the Chief Executive and the Senior Management Team members of staff employed by West Devon Borough Council are shared with South Hams District Council.

In 2013/14, West Devon Borough Council received a reimbursement of salary costs amounting to £262,700 (2012/13 £254,800) from South Hams District Council, in respect of the Chief Executive and the four Heads of Services employed by West Devon Borough Council.

Similarly, West Devon Borough Council contributed £203,300 (2012/13 £229,800) to South Hams District Council for salary costs in respect of shared members of the Senior Management Team who are employed by South Hams District Council.

The shared Chief Executive was employed by West Devon Borough Council but 50% of the employment costs shown below are reimbursed to the Council by South Hams District Council. However the total costs have to be included in West Devon Borough Council's Accounts in accordance with accounting requirement. 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.

The remuneration paid to the Authority's senior employees for the year 2013/14:
(All Shared Roles with South Hams District Council)

	Salary	Benefits	Total	Employers Pension Contribution	Total Remuneration Inc Employers Pension Contribution
Chief Executive	115,000	271	115,271	21,045	136,316
Head of Service (Finance & Audit) S151 Officer	46,497	240	46,737	8,509	55,246
Head of Service (ICT & Customer Services)	62,620	311	62,931	11,459	74,390
Head of Service (Environment Services)	62,620	55	62,675	11,459	74,134
Head of Service (Planning, Economy & Community)	62,620	333	62,953	11,459	74,412
Acting S151 Officer	15,866	72	15,938	2,903	18,841
Monitoring Officer	41,250	29	41,279	7,549	48,828

The post of the Section 151 Officer is held by The Head of Service (Finance & Audit). West Devon Borough Council has no other officers earning over £50,000.

Senior Officer Remuneration for the year 2012/13:

	Salary	Benefits	Total	Employers Pension Contribution	Total Remuneration Inc Employers Pension Contribution
Chief Executive	£115,000	£1,486	£116,486	£21,045	£137,531
Head of Service (Finance & Audit)	£61,487	£965	£62,452	£11,252	£73,704
Head of Service (ICT & Customer Services)	£62,000	£1,254	£63,254	£11,300	£74,554
Head of Service (Environment Services)	£62,000	£1,367	£63,367	£11,300	£74,667

Head of Service (Planning, Economy & Community)	£62,000	£1,295	£63,295	£11,300	£74,595
Acting S151 Officer	£9,324	£0	£9,324	£1,706	£11,030

The Statutory Chief Officer post of Monitoring Officer is not included above due to the post being employed by South Hams District Council during 2012/13. The post of the Section 151 Officer is held by The Head of Service (Finance & Audit). West Devon Borough Council has no other officers earning over £50,000.

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 (inc. special payments)	No. 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		1				1		£6,859.53
£20,001 - £40,000		1		1		2		£47,062.62
Total		2		1		3		

Note: 50% of the *redundancy element of the exit package costs shown in 2013/14 were reimbursed to the Authority by South Hams District Council as per the Shared Services Agreement.

West Devon Borough Council contributed £nil in 2013/2014 (£24,700 2012/2013) to the South Hams District Council exit package costs. Conversely, West Devon Borough Council received £nil in 2013/2014 (£nil 2012/2013) from South Hams District Council for exit package costs for the 2013/14 period.

26. External Audit Costs

The Authority incurred the following fees relating to external audit and inspection:

Audit Fees	2012/13	2013/14
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	**47,028	51,628
Fees payable to Grant Thornton for the certification of grant claims and returns (2012/13 adjusted as estimated cost was £10,250)	10,650	7,787*
Fees payable in respect of other services provided by the appointed auditor	5,500	1,050
Total Audit Fees	63,178	60,465

* This is an estimate of fees for grant claims and returns for 2013/2014

** This includes a refund from the Audit Commission of £4,600 for 2012/13

27. Grant Income

The Authority credited the following capital grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

Capital Grants & Contributions	2012/13	2013/14
	£000	£000
Tamar Valley Mining Heritage	651	0
Private Sector Renewal Grants	90	178
Disabled Facility Grants	174	0
Section 106s	72	0
Total	987	178

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 may require the monies or property to be returned to the giver. The balances at the year end are as follows:

	31 March 2013	31 March 2014
	£000	£000
Capital Grants Receipts in Advance		
Land Stabilisation	10	10
Hayedown	20	20
Section 106s	183	453
Total	213	483

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 Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are detailed in Note 9 and 27.

Members

Members of the Council have direct control over the Authority's financial and operating policies. The Borough Solicitor acts as Monitoring Officer and keeps a register of Members'

interests, which is available for public inspection. A questionnaire in respect of related party transactions was issued to all Members and Senior Officers. No material transactions with related parties during the year have been identified, other than those disclosed above or elsewhere, i.e. government grants, etc.

iESE

West Devon Borough Council and South Hams District Council 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

Total capital expenditure in 2013/14 amounted to £490,084. How this is financed is shown below:-

	2012/13 £000		2013/14 £000
Earmarked Reserves	36	Earmarked Reserves	nil
Capital Grants	321	Capital Grants	178
External Contributions	651	External Contributions	nil
Capital Receipts and Funds Reserves	496	Capital Receipts and Funds Reserves	312
MRP	42		
	1,546		490

The Authority's Capital Financing Requirement (CFR) for the year is shown below.

CFR (£m)	31 March 2013 Actual	31 March 2014 Actual
Actual	£1,842,000	£1,842,000

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. The Minimum Revenue Provision was applied in 2012/13 and was calculated at £42,000 per year. This is the borrowing of £2.1 million, divided by the life of the asset of 50 years, which equates to £42,000 per annum.

30. Leases

Authority as Lessee

The Authority has, in the past, acquired some assets through operating leases. These have included vehicles and printers. However, all remaining material operating leases have ceased and no lease payments have been made since 2009/10.

Authority as Lessor

The Authority leases various industrial units and commercial properties to external organisations. The gross value of assets held for use in operating leases was £2.575m as at 31 March 2014.

The authority has also granted a lease to the Wharf Building. The lease is for 35 years from December 1994 and was originally granted to The Wharf Community Arts Centre Limited but has now been transferred to CAM (The Wharf) Limited. The arrangement is accounted for as an operating lease and a peppercorn rent is charged.

31. Termination Benefits

The details of the Shared Service arrangements are explained on Page 2 of the Explanatory Foreword to the Accounts. There are no material termination benefits in 2013/14. Please also see note 25 on exit packages.

32. Contingent Liabilities

In common with 370 other English district and unitary councils, West Devon Borough Council 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 £38,000 (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.

33. Accounting Policies

A. 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. 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 2013/14, 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.

B. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

C. Cash and Cash Equivalents

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

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

D. 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.

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

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

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

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

F. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed 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 fixed assets attributable to the service.

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

G. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave,

bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

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

Termination Benefits

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

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

Post Employment Benefits

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

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

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

- unitised securities – current bid price
- property – market value.

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

- **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **expected return on assets** – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **gains or losses on settlements and curtailments** – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- **contributions paid to the Devon County Council Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities not accounted for as an expense.

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

Discretionary Benefits

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

H. Events After the Balance Sheet Date

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

Two types of events can be identified:

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

Events taking place after the date of authorisation for issue (23rd September 2014) are not reflected in the Statement of Accounts.

I. Financial Instruments

Financial Liabilities

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

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 Authority does not hold any available-for-sale assets.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and

Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

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

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

J. Government Grants and Contributions

General

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

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

Amounts recognised as due to the Authority 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-ringfenced 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.

A Business Improvement District (BID) scheme operates in Tavistock. This scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts an agent for the Tavistock BID Company, the Council is the billing authority and collects the levy on the BID company's behalf. No income or expenditure is included in the Comprehensive Income and Expenditure

Statement, and any cash balance collected by the Council but not yet paid to the BID company at the year end is carried in the Balance Sheet as a creditor.

K. Assets

Fixed Assets owned by the Authority includes:

Assets	31 March 2014 Numbers	Basis of Valuation	Estimated Useful Economic Lives
Council Offices – Kilworthy Park	1	EUV & DRC *	50 years
Council Offices –Okehampton Customer Services	1	EUV	50 years
Swimming Pools	2	DRC	Range of 10 - 30 years
Car Parks	13	EUV	Range of 30 - 50 years
Public Conveniences	9	DRC	Range of 50 - 100 years
Industrial Units	45	EUV &MV	Range of 15 – 30 years
Other Commercial Properties	17	EUV & DRC	Range of 50 – 100 years
Vehicle, Plant and Equipment	N/A	HC	Range of 5 years
Infrastructure	N/A	HC	50 years

**The Kilworthy Park property has been valued to EUV (Existing Use Value) except for the more recently constructed Council chamber “pod” which was specifically designed to meet the Council’s requirements for public enquiry space on the ground floor and a council chamber on the first floor. The accommodation is effectively a self-contained unit and due to the specialist nature, this part of the property has been valued to DRC.*

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.

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.

L. Inventories

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

M. 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 Authority 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 benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

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

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. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

N. 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 Code of Accounting 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 and impairment losses chargeable on Assets Held for Sale.

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.

O. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

Where decreases in value are identified, they are accounted for by:

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

- 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.

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses 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 fixed 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.

Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which was adopted fully by the Authority in the 2012/13 financial statements. The Authority is required to make disclosure of the estimated effect of the standard in the financial statements. The standard requires that a new class of asset, heritage assets, is disclosed separately on the face of the Authority's Balance Sheet.

P. 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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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.

Q. Reserves

The Authority sets aside specific amounts as reserves for future 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.

R. 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.

S. Section 106 deposits

Developer contributions are initially treated as Capital Receipts in Advance unless a clear capital use is identified in the terms of the agreement in which case they are defined as Capital Contributions Unapplied.

T. Recharging the salaries of shared services officers

Extensive detailed work has been carried out by a small group of officers on the recharging of salaries between West Devon Borough Council and South Hams District Council for the 2013/14 financial year for shared officers, following the Senior Management Review (effective from 1st April 2011) and the Middle Management Review (effective from 1st October 2011).

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 Authorities. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc and other methods such as time recording. The work carried out includes establishing from the Head of Service the relevant recharge requirements for every member of staff.

U. 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.

V. 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 is a significant risk 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 that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the useful lives of the assets were to change by 1 year across all assets, this would have a £7,500 impact on the Council's assets.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways. Please refer to the Technical Appendix for further information about the assumptions used by the actuaries and the sensitivity analysis which show the impact of a 1% or 1 year change.
Arrears	At 31 March 2014, the Authority had sundry debtors which were reviewed for an impairment of doubtful debts based on previous debt collection performance. However, in the current	If collection rates were to deteriorate by 1%, an increase of £18,000 to the impairment of doubtful debts would be required to be set

	economic climate it is not certain that such an allowance would be sufficient.	aside as an allowance.
Business Rates Appeals	At 31 March 2014, the Authority had to estimate the value of Business Rate appeals that it expects to pay out from current and future appeals.	If the Business Rates appeals were to increase by 1%, this would have an impact of £3000 on the surplus for the year.

W. 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 and on advice from them about the likely success rate of appeals.

COLLECTION FUND

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2014

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

2012/13 £'000	2012/13 £'000	INCOME	2013/14 £'000	2013/14 £'000
Business Rates	Council Tax		Business Rates	Council Tax
	30,055	Council Tax		31,189
	3,985	Council Tax Benefit		0
10,460		Business Rates	10,421	
(295)		Transitional Relief	(72)	
10,165	34,040		10,349	31,189
		EXPENDITURE		
		<i>Precepts & Demands</i>		
	23,465	- Devon County Council	980	21,123
	1,554	- Devon & Somerset Fire & Rescue Authority	109	1,426
	3,357	- Devon & Cornwall Police Authority		3,083
	5,280	- West Devon Borough Council (Inc Parishes)	4,359	4,849
		- Central Government	5,449	
		<i>Business Rates</i>		
10,080		- Payments to National Pool		
85		- Costs of Collection	84	
		Rates increase/decrease in provision for appeals	368	
	217	Write-offs	44	34
		Movement in Provision for Uncollectable Rates	(178)	
	171	Movement in Provision for Uncollectable Council Tax		91
		Contribution towards previous year's Collection Fund surplus transferred to		
	528	- Devon County Council		352
	34	- Devon & Somerset Fire & Rescue Authority		23
	74	- Devon & Cornwall Police Authority		49
	114	- West Devon Borough Council		76
10,165	34,794		11,215	31,106
	(754)	<i>Movement on Fund Balance</i>	(866)	83
	1,508	Balance brought forward at 1 April	0	754
NIL	754	Balance carried forward at 31 March	(866)	837
	636	Balance attributable to major precepting bodies	(520)	704
	118	Balance attributable to WDBC	(346)	133
NIL	754		(866)	837

The Collection Fund is consolidated with the other accounts of the Authority. The sources of income to the Collection Fund are Council Tax, which amounted to £31m (£34m in 2012/13) and the National Non Domestic Rates (Business Rates), which amounted to £10.3m (£10.2m in 2012/13).

1. INCOME FROM COUNCIL TAX

Council Tax income comes from charges raised according to the value of residential properties, which have been classified into eight valuation bands (A to H) estimating April 1991 values for this specific purpose.

For Council Tax purposes the number of domestic properties in each valuation band converted to a Band D equivalent was as follows:-

Band	Council Tax	No. of Dwellings after Discounts and Exemptions	Multiplier	Band D Equivalent Number
A-	889.56	11.25	5/9	6.25
A	1,067.47	2,689.25	6/9	1,792.83
B	1,245.38	5,495.30	7/9	4,274.12
C	1,423.29	4,556.45	8/9	4,050.18
D	1,610.98	3,716.10	1	3,716.10
E	1,957.02	2,991.35	11/9	3,656.09
F	2,312.84	1,609.50	13/9	2,324.83
G	2,668.67	919.40	15/9	1,532.33
H	3,202.40	75.50	18/9	151.00
				21,503.73
Less allowance for non-collection				(430.07)
Change in tax base for Local Council Tax Benefit Scheme				(2,476.78)
Change on tax base for technical reforms				323.91
Tax base including Local Council Tax Benefit Scheme & Technical changes				18,920.79

Individual Council Tax charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting authorities for the forthcoming year (See Note 3) and dividing this by the Council Tax Base. The Tax Base is the number of properties in each band adjusted to Band D equivalents.

The basic amount of Council Tax for a Band D property was £1,610.98 for 2013/14 (£1,601.20 for 2012/13). The income credited to the Collection Fund can be analysed as follows:-

	2012/13 £'000	2013/14 £'000
Actual Income from Council Tax	34,040	31,189
Less: Council Tax Benefit	-3,985	0
TOTAL	30,055	31,189

The tax base multiplied by the Band D Council Tax for the year of £1,610.98, including parishes, would have produced income amounting to £30,480,993 (See Note 3). The actual income of £31,188,621 differed from this figure due to changes in the Council Tax Base and the tax collection rate during the year and equates to approximately 2% of total income.

2. INCOME FROM BUSINESS RATES

Business Rates are organised on a national basis. In line with the Local Government Act 2003, from 1st April 2005, there are two multipliers, the small business non-domestic rating multiplier, which is applicable to those that qualify for the small business relief; and the non domestic rating multiplier, which includes the supplement to pay for small business relief. The small business non-domestic rating multiplier for 2013/14 was 46.2p per pound of rateable value and the non-domestic rating multiplier was 47.1p per pound.

The Business Rates income after reliefs and provisions is based on an initial rateable value of £28,806,351 for 2013/14 (£29,077,264 for 2012/13). The income collectable from Business Rates is shown below:-

	2012/13	2013/14
	£'000	£'000
Business Rateable Value (£28,806,351) multiplied by SB business rate (46.2p)	13,085	10,421
Less: Allowances, specific relief for small businesses and transitional relief adjustments	-2,920	-72
TOTAL	10,165	10,349

3. PRECEPTS AND DEMANDS

The following authorities made a demand upon the Collection Fund:

	2012/13	2013/14
	£	£
Devon County Council	23,465,206	21,122,413
Devon & Somerset Fire & Rescue Authority	1,553,753	1,426,438
Devon & Cornwall Police Authority	3,357,427	3,082,575
West Devon Borough Council	5,279,785	4,849,567
TOTAL	33,656,171	30,480,993

4. CONTRIBUTION TOWARDS/FROM PREVIOUS YEAR'S COLLECTION FUND DEFICIT/SURPLUS

This item represents the transfer of the surplus or deficit on the Collection Fund, estimated for the previous year on 15 January of that year.

During the year, the estimated surplus for 2013/14 of £500,000 relating to Council Tax was transferred to Devon County Council, Devon & Somerset Fire & Rescue Authority, Devon & Cornwall Police Authority and West Devon Borough Council in proportion to the precepts drawn on the Fund in 2013/14.

The amounts transferred were as follows:

	2012/13	2013/14
	£	£
Devon County Council	528,558	352,123
Devon & Somerset Fire & Rescue Authority	33,867	22,654
Devon & Cornwall Police Authority	73,730	49,454
West Devon Borough Council	113,845	75,769
Total	750,000	500,000

5. ACCOUNTING FOR THE COLLECTION FUND BALANCE

The opening balance on the Collection Fund for Council Tax 2013/14 there was a surplus of £754,582. The balance as at 31 March 2014 was a surplus of £837,689. Surpluses and deficits are shared with the other major precepting bodies that make a demand of the Fund. The Council accounted for the Collection Fund in its 2013/14 Statement of Accounts as follows:

2012/13 £'000	Major Precepting Bodies:	2013/14 £'000
526	Devon County Council	580
35	Devon & Somerset Fire & Rescue Authority	39
75	Devon & Cornwall Police Authority	85
636	Balance attributable to major precepting bodies	704
118	Balance attributable to WDBC	133
754	Total Collection Fund Surplus – Council Tax	837

The opening balance on the Collection Fund for Business Rates 2013/14 was nil. The balance as at 31 March 2014 was a deficit of £866,453. Surpluses and deficits are shared with the other major precepting bodies that make a demand of the Fund. The Council accounted for the Collection Fund in its 2013/14 Statement of Accounts as follows:

2012/13 £'000	Major Precepting Bodies:	2013/14 £'000
	Devon County Council	78
	Devon & Somerset Fire & Rescue Authority	9
	Central Government	433
0	Balance attributable to major precepting bodies	520
0	Balance attributable to WDBC	346
0	Total Collection Fund deficit – Rates	866

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance as the Council's Chief Finance Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

The Responsibilities of the Head of Finance and Audit

The Head of Finance and Audit is responsible for the preparation of the Council'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 the 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 Head of Finance and Audit has signed below to certify that the Statement of Accounts gives a true and fair view of the financial position of the authority at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

..... **LISA BUCKLE Bsc,ACA**
Head of Finance and Audit

23rd September 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST DEVON BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of West Devon Borough 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 West Devon Borough 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 West Devon Borough 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, *West Devon Borough 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 West Devon Borough 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

23 September 2014

SECTION 7. GLOSSARY.

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

SECTION 7. GLOSSARY.

DEFINED BENEFIT SCHEME	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
DEMAND	The charging authorities own Demand is, in effect, its precept on the fund.
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.
MINIMUM REVENUE	This is a statutory requirement to make an annual

SECTION 7. GLOSSARY.

PROVISION (MRP)	calculation of an amount or MRP considered prudent to offset against borrowings made under the Prudential Borrowing rules
PAST SERVICE COST	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.
PRECEPT	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
PROJECTED UNIT METHOD	<p>An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:</p> <p>a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and b) the accrued benefits for members in service on the valuation date.</p> <p>The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</p>
RATEABLE VALUE	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of Salaries and Wages, Debt Charges and general running expenses etc.
SETTLEMENTS	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability

SECTION 7. GLOSSARY.

STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement
SUNDRY CREDITORS	Amounts owed by the Authority at 31 March.
SUNDRY DEBTORS	Amounts owed to the Authority at 31 March.

1	Financial Instruments and Capitalisation of Borrowing Costs
2	Defined Benefit Pension Schemes
3	Nature and Extent of Risks Arising from Financial Instruments

1. Financial Instruments

Capitalisation of Borrowing Costs

Due to the costs of the Authority's Capital Programme, the Authority borrowed £2.1 million from the Public Works Loan Board (PWLB) on 2nd August 2007 at a fixed rate of 4.55% for 45 years and 6 months. This external borrowing was undertaken during 2007/2008 under the Prudential Code.

Any costs of borrowing are borne in the Comprehensive Income & Expenditure statement by interest charges and the Minimum Revenue Provision for the repayment of debt. The Minimum Revenue Provision (MRP) is charged on the Asset Life Method and provisions are made over the estimated life of the asset for which the borrowing is undertaken. MRP is applied in the financial year following the one in which the asset became operational.

For West Devon Borough Council the asset, Kilworthy Park offices, became operational in 2009/10 which means 2010/11 was the first year when MRP of £42,000 was applied (£2.1 million over 50 years).

Financial Instruments Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments

	Long-term		Current	
	31 March 2013 £000's	31 March 2014 £000's	31 March 2013 £000's	31 March 2014 £000's
Financial liabilities (principal amount)	2,100	2,100	Nil	Nil
Creditors	30	37	1,601	2,339
Accrued Interest	Nil	Nil	15	16
Financial liabilities at amortised cost	2,130	2,137	1,616	2,354
Financial liabilities at fair value through profit or loss	Nil	Nil	Nil	Nil
Total Borrowings	2,130	2,137	1,616	2,355
Loans and receivables (principal amount)	2	2	1,000	2,000
Debtors	145	142	2,394	3,860
Accrued Interest	Nil	Nil	Nil	1

Loans and receivables at amortised cost	147	144	3,394	5,861
Available-for-sale financial assets	Nil	Nil	Nil	Nil
Total Investments	147	144	3,394	5,861

Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Fair value of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loan Board (PWLB), borrowing rates have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

In addition for financial assets or liabilities not being carried at fair value (e.g. amortised cost) the Code of Practice requires disclosure of these fair values by each class of assets and liabilities.

The fair values are as follows:

£000s	31 March 2013		31 March 2014	
	Carrying amount	Fair Value	Carrying amount	Fair Value
PWLB debt	2,100	2,792	2,100	2,639
Long Term Debtors	145	145	142	142
Long Term Creditors	30	30	37	37

Recognition and measurement of Financial Instruments

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

Financial Instrument	Basis of measurement	Note
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality	Money Market Funds
PWLB Debt	Carrying value and interest due at year end shown as a current liability.	Borrowing is both fixed term and fixed interest rate.
Operational Debtors	Held at invoiced amount less a provision for uncollectable debts.	Carrying amount is reasonable approximation of fair value for these short term receivables with no stated interest rate.
Operational Creditors	Held at invoiced amount	Carrying amount is reasonable approximation of fair value for these short term liabilities

2. Defined Benefit Pension Schemes

a. General

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS) administered by Devon County Council – this is a funded scheme, meaning that the Authority and employees pay contributions in to the fund, calculated at a level intended to balance the pension's liabilities with investment assets. The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations. It is contracted out of the State Second Pension.

In 2013/14, the Authority paid an employer's contribution of £814,839 (£850,753 in 2012/13) representing 29.1% (29.1% in 2012/13) of employees pensionable pay into Devon County Authority's Pension Fund, which provides members with defined benefits. Fund and contributions are payable by both employees and the employer. In addition, the Authority is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2013/14 these amounted to £86,557 (£4,582 in 2012/13), representing 2.67% (0.17% in 2012/13) of pensionable pay.

Further information can be found in Devon County Council Pension Fund's Annual Report, which is available upon request from the Devon Pension Services, Estuary House, Peninsula Park, Rydon Lane, Exeter EX2 7XB.

The figures have been prepared in accordance with International Accounting Standard 19 (IAS 19). The advice complies with all Generic Technical Actuarial Standards (TASs) and the Pension TAS. The report also complies with Financial Reporting Standard 17. The information supplied is from a report by Barnett Waddingham Public Sector Consulting.

The figures quoted form the basis of the balance sheet and funding status disclosures to be made by the Authority as at 31 March 2014 in respect of its pension obligations under the LGPS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013/14; it is contracted out of the State Second Pension and benefits accrued up to 31 March 2014 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1st April 2014 and any benefits accrued from this date will be based on a career average re-valued salary, with various protections in place for those members in the scheme before the changes take effect.

West Devon Borough Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. This includes disclosure of any other employer provided benefits which are not paid from the Fund (Devon County Council Pension Fund) itself; examples include additional pensions paid on retirement under the Discretionary Payment Regulations.

The Actuaries are not aware of any material changes or events since the data used was received.

b. Data Source

In completing their calculations the Actuaries have used the following items of data, as received from Devon County Council:

- The results of the funding valuation as at 31 March 2014 which was carried out for funding purposes
- Estimated whole fund income and expenditure items for the period to 31 March 2014
- Estimated fund returns based on assets used for the purpose of the funding valuation as at 31 March 2014, a Fund asset statement as at 31 March 2014, and market returns (estimated where necessary) thereafter for the period to 31 March 2014
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 March 2014

- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Assets

The return on the fund for the year to 31 March 2014 is estimated to be 5%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

The estimated asset allocation for West Devon Borough Council as at 31 March 2014 is as follows:

	Asset split at 31 March 2014 %	£000's	Asset split at 31 March 2013 %	£000's
Equities	60	13,045	61	12,787
Property	9	1,956	8	1,677
Gilts	7	1,522	13	2,725
Other bonds	5	1,087	0	0
Cash	2	435	3	629
Target return portfolio	15	3,261	15	3,144
Infrastructure	2	435		
Total	100	21,741	100	20,962

The bid values have been estimated where necessary. Based on the above, the Employer's share of assets of the Fund is approximately 1%.

Employer Membership statistics

The table below summaries the membership data, as at 31 March 2013 for members receiving funded benefits, and as at 31 March 2014 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions £000's	Average Age
Active	117	2,944	45
Deferred Pensioners	85	206	45
Pensioners	155	1,241	71
Unfunded Pensioners	38	87	76

Unfunded Benefits

In the year to 31 March 2014, £88,000 of unfunded benefits was paid.

c. Actuarial Methods and Assumptions

Roll Forward Approach

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

The full actuarial valuation involved projecting future cashflows to be paid from the fund and placing value on them. These cashflows include pensions currently being paid to members of the scheme as well as pensions (and lump sums) that may be payable in the future to members of the fund and their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However the actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Authority and the Fund is broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. There appears to be no evidence to suggest that this approach is inappropriate.

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

Valuation Method

As required under IAS19, the projected unit method of valuation has been used to calculate the service cost.

Demographic/Statistical Assumptions

Life Expectancy in years from age 65			
		31 3 2014	31.3.2013
Retiring today	Males	22.7	20.6
	Females	26.0	24.6
Retiring in 20 years	Males	24.9	22.6
	Females	28.3	26.5

Financial Assumptions used for the purpose of the IAS19 calculations are as follows:

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.6	-	3.4	-	3.3	-
CPI Increases	2.8	-0.8	2.6	-0.8	2.5	-0.8
Salary Increases	4.6	1.0	4.8	1.4	4.7	1.4
Pension Increases	2.8	-0.8	2.6	-0.8	2.5	-0.8
Discount Rate	4.4	0.8	4.4	1.0	4.6	1.3

Past Service Costs/Gains

Past service costs can arise when the Employer awards additional discretionary benefits such as added years and other forms of augmentation of benefits. A change in benefits may result in either a past service cost or past service gain. No such additional benefits were granted over the year ended 31 March 2014.

Settlements

The actuaries are not aware of any liabilities being settled at a cost materially different to the IAS19 reserve during the year.

Curtailments

Curtailments arise as a result of the early payment of accrued pension on retirement on the grounds of efficiency or redundancy, or where the Employer has allowed employees to retire on unreduced benefits before they would otherwise have been able to do so.

Over the year no employees were permitted by West Devon Borough Council to take unreduced early retirement that they would not otherwise have been entitled to.

d. Results and Disclosures**Balance Sheet Disclosure as at 31 March 2014**

Pension asset as at	31 March 2014 £000's	31 March 2013 £000's	31 March 2012 £000's	31 March 2011 £000's
Present value of funded obligation	38,186	38,168	34,562	29,212
Fair Value of scheme assets	(21,741)	(20,962)	(18,512)	(18,376)
Net Liability	16,445	17,206	16,050	10,836
Present value of unfunded obligation	1,053	1,008	1,043	1,030
Net Liability in Balance Sheet	17,498	18,214	17,093	11,866
Strain Payment	-	-	-	283
TOTAL Liability in Balance Sheet	17,498	18,214	17,093	12,149

Income and Expenditure Account Costs for the year to 31 March 2014

A revised IAS19 standard applies for company accounting periods beginning on or after 1 January 2013. The main changes 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;

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".

Administration expenses are now accounted for within the Profit and Loss charge; previously a deduction to the actual and expected returns on assets was made. The main changes are to the profit and loss statement. The figures shown below are under the new standard for the year to 31 March 2014 and the figures as they would have been under the new standard for the year to 31 March 2013.

The amounts recognised in the I & E Account statement are	Year to 31 March 2013 £000's*	Year to 31 March 2014 £000's
Service Cost	738	799
Net interest on the defined liability (asset)	758	778
Administration expenses	9	12
Total	1,505	1,589
Actual return on scheme assets	2,346	967

*had the revised IAS19 standard applied

Asset and Benefit Obligation Reconciliation for the Year to 31 March 2014

	Year to 31 March 2013 £000's*	Year to 31 March 2014 £000's
Reconciliation of opening and closing balance of the present value of the defined benefit obligation		
Opening defined benefit obligation	35,605	39,176
Current service cost	738	799
Interest cost	1,612	1,691
Changes in financial assumptions	2,354	833
Changes in demographic assumptions	-	250
Experience loss/(gain) on defined benefit obligation	(17)	(2,027)
Liabilities assumed/(extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(1,221)	(1,586)
Past service costs, including curtailments	-	-
Contributions by scheme participants	193	189
Unfunded pension payments	(88)	(86)
Closing defined benefit obligation	39,176	39,239

* had the revised IAS19 standard applied

Reconciliation of opening and closing balances of the fair value of Scheme assets	Year to 31 March 2013 £000's*	Year to 31 March 2014 £000's
Opening fair value of fund assets	18,512	20,962
Interest on assets	854	913
Return on assets less interest	1,491	54
Other actuarial gains/(losses)	-	267
Administration expenses	(9)	(12)
Contribution by employer including unfunded benefits	1,230	1,040
Contributions by scheme participants	193	189
Estimated benefits paid including unfunded benefits	(1,309)	(1,672)
Closing fair value of fund assets	20,962	21,741

* Has had the revised IAS19 standard applied

Remeasurements in Other Comprehensive Income	Year to 31 March 2013 £000's*	Year to 31 March 2014 £000's
Return on plan assets in excess of interest	1,491	54
Other actuarial gains/(losses) on assets	-	267
Changes in financial assumptions	(2,354)	(833)
Changes in demographic assumptions	-	(250)
Experience gain/(loss) on defined benefit obligation	17	2,027
Changes in effect of asset ceiling	-	-
	(846)	1,265
* had the revised IAS19 standard applied		
Statement of Recognised Income and Expense	31 March 2013 (as disclosed)	
Actual return less expected return on pension Fund assets	1,328	
Experience gains and losses	17	
Changes in assumptions underlying the present value of the scheme liabilities	(2,354)	
Actuarial gains (losses) in irrecoverable surplus	(1,009)	
Actuarial gains (losses) recognised in SORIE	(1,009)	

Projected Pension Expense for the year to 31 March 2015	Year to 31 March 2015 £000's
Service cost	657
Net Interest on defined liability (asset)	753
Administration costs	12
TOTAL	1,422
Employer Contributions	759

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2014. These projections are based on the assumptions as at 31 March 2014.

Amounts for the current and previous periods	Year to Mar 2014 £000's	Year to Mar 2013 £000's	Year to Mar 2012 £000's	Year to Mar 2011 £000's	Year to Mar 2010 £000's
Defined Benefit Obligation	(39,239)	(39,176)	(35,605)	(30,242)	(37,107)
Scheme assets	21,741	20,962	18,512	18,376	17,689
Surplus (Deficit)	(17,498)	(18,214)	(17,093)	(11,866)	(19,418)
Experience adjustments on Scheme liabilities	2,027	17	10	1,424	73
Percentage of Liabilities	5.1%	0%	0%	4.7%	0.2%

Sensitivity Analysis

	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	38,558	39,239	39,933
Projected Service cost	640	657	674
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	39,328	39,239	39,151
Projected Service cost	657	657	657
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	39,855	39,239	38,634
Projected Service cost	675	657	640
Adjustment to mortality age rating assumption	+0.1%	0.0%	-0.1%
Present value of total obligation	37,853	39,239	40,637
Projected Service cost	635	657	680

3. Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Authority's activities expose it to a variety of financial risks. The key risks are:

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

Overall procedures for managing risk

The Authority's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Authority to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and Treasury Management clauses within its constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Authority's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the Authority sets the annual council tax budget or before the start of the year to which they relate. These items are reported within either the annual treasury management strategy or the Capital Programme and Prudential Indicators report which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy and annual investment strategy and the Capital Programme which incorporates the prudential indicators was approved by Council in 2013. All of these documents are available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2013/14 was set at £6m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £3m. This is the expected level of debt and other long term liabilities during the year.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

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. The Council applies the creditworthiness service provided by Capita Asset Services. The creditworthiness methodology used to create the counterparty list fully accounts for ratings and watches published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita Asset ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically. 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. Details of the Investment Strategy can be found on the Authority's website:

www.westdevon.gov.uk

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £2 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

No breaches of the Authority's counterparty criteria occurred during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Authority does not generally allow credit for its customers, the past due amount can be analysed by age as follows:

	31 March 2013 £000's	31 March 2014 £000's
Less than three months	170	165
Three to six months	14	11
Six months to one year	39	38
More than one year	99	111
Total	322	325

Collateral – During the reporting period the Authority held no collateral as security.

Liquidity risk

The Authority 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 a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Authority has ready access to borrowing from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, excluding sums due from customers, is as follows:

	31 March 2013 £million	31 March 2014 £million
Less than one year	1	2
Between one and two years	0	0
Between two and three years	0	0
More than three years	0	0
Total	1	2

Refinancing and Maturity risk

The Authority maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

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

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Approved minimum limits	Approved maximum limits	Actual 31 March 2013 £million	Actual 31 March 2014 £million
Less than 1 year	0%	10%	0	0
Between 1 and 2 years	0%	10%	0	0
Between 2 and 5 years	0%	30%	0	0
Between 5 and 10 years	0%	50%	0	0
More than 10 years	0%	100%	2.1	2.1
Total			2.1	2.1

Market risk

Interest rate risk - The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in fixed interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy and the Capital Programme and Prudential Indicator report draws together the Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The finance team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Price risk - The Authority, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

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

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

23 September 2014

Dear Sirs

West Devon Borough 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 West Devon Borough 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 23 September 2014

Signed on behalf of the Council

Name...Councillor Mrs D Sellis

Position...Chairman of the Audit Committee.

Date 23rd September 2014

Name...Mrs L Buckle...

Position Head of Finance and Audit

Date 23rd September 2014

The Audit Findings for West Devon Borough Council

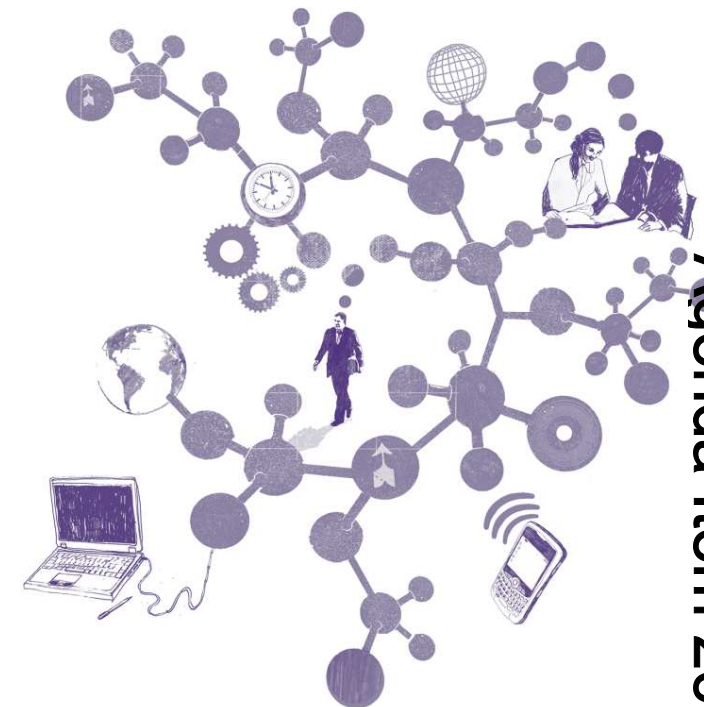
Year ended 31 March 2014

23 September 2014

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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.

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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

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of West Devon Borough 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 15 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.

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 a presentation error affecting the Council's reported Deficit on provision of Services (details are recorded in section 2 of this report). The draft financial statements recorded a Deficit on Provision of Services of £539k. The audit identified that the presentation of the revaluation of assets required an additional charge to be shown in the comprehensive Income and Expenditure account. This resulted in the audited financial statements showing a Deficit on Provision of Services of £2,489k., the associated adjusting entries result in no change to the Council's reported reserves at the year end. 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
23 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 15 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.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 15 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
Page 125	1. Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams • Testing of unusual significant transactions 	Our audit work has not identified any issues in respect of revenue recognition.
	2. Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	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. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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

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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
<p>Property, plant & equipment (PPE)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 127</p>	<p>Revaluation measurement not correct</p>	<ul style="list-style-type: none"> Review the system documentation and walkthrough of a transaction Substantively test the accounting treatment for the valuation to ensure it has been correctly applied Reconcile valuers' report to Fixed asset register 	<ul style="list-style-type: none"> Our audit work identified one significant issue in relation to the revaluation of PPE. In order to reflect the revaluations correctly in the accounts, the downward revaluations of £1,950k were presented, in error, below the cost of services in the Comprehensive Income and expenditure account. The resulting reported adjustments were incorrect, affecting Movement in Reserves, Comprehensive Income and Expenditure, Cash flow statement and note 5 (Adjustments between Accounting Basis and Funding Basis under Regulations). As these items are presentational, there is no effect on the Council's reported reserves at 31 March 2014.

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.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	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"> • Appropriateness of policy under relevant accounting framework • Adequacy of disclosure of accounting policy 	 Green
Judgements and estimates	Management have disclosed their accounting policy, and disclosed key estimates and judgements around: <ul style="list-style-type: none"> – Asset valuations; – Depreciation; – Bad debt provisions; and – Pension fund valuations and settlements. 	We have no issues over the: <ul style="list-style-type: none"> • Appropriateness of policies under relevant accounting framework • Extent of judgements involved • Adequacy of disclosure of accounting policies 	 Green
Other accounting policies	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.	 Green

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

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	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Accounting entries for the revaluation of Property, Plant and Equipment.			
Page 129	Comprehensive Income and Expenditure Account		
	• Deficit on Provision of Services	1,950	
	• Surplus or deficit on revaluation of non current assets	(2,770)	
	• Note 5 Adjustments between Accounting Basis and Funding Basis under Regulations	(1,950)	
Movement in Reserves			
• Other Comprehensive Income and Expenditure	1,950		
• Correction of imbalance - Other Comprehensive Income and Expenditure	820		
Overall impact	£0	£0	£0


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.



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.

	Assessment	Issue and risk	Recommendations
1. Page 131	 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

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.	Matters in relation to fraud	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.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A standard letter of representation has been requested from the Council.
4.	Disclosures	Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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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. The 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 underspent its budget in 2013/14 by £170k, and has demonstrated that it can achieve its savings targets. The Council's forward-looking financial plan recognises the need for substantial future savings, which will be achieved through the delivery of the T18 transformation programme with South Hams District Council.

The Council has areas of spend, such as Housing Benefit admin, Economic development and planning services, that appear high in comparison with similar councils. This is based on the Value for Money Profile from the 2012/13 accounts.. 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

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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	51,628	52,528
Grant certification	7,787	7,787
Total audit fees	59,415	60,315

Fees for other services

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

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).

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
Our communication plan		
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		✓

Appendices

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Appendix A: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST DEVON BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of West Devon Borough 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 West Devon Borough 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 West Devon Borough 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, *West Devon Borough 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 West Devon Borough 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

23 September 2014



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AGENDA
ITEM

8

WEST DEVON BOROUGH COUNCIL

AGENDA
ITEM

8

NAME OF COMMITTEE	Audit Committee
DATE	23 September 2014
REPORT TITLE	Treasury Management – Annual Report 2013/2014
Report of	Head of Finance & Audit
WARDS AFFECTED	All

Summary of report:

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2013/14.

Financial implications:

There are no financial implications that directly relate to this report but there is budgeted investment income of £45,321, and the actual outturn for the financial year is £27,929.55. The report shows that the Council exceeded the benchmark of 0.39% on its investment activity, by achieving a 0.42% return on its investments up to 31 March 2014

RECOMMENDATIONS:

It is recommended that Members:

1. review and scrutinise the Treasury Management Report for 2013/2014 and recommend to Council that the contents of the report are noted;
2. note the actual 2013/2014 prudential indicators within this report, shown in Appendix A; and,
3. Members note the Minimum Revenue Provision Statement, as detailed in 6.2 of the report for 2013/14.

Officer contact:

For further information concerning this report, please contact: Alex Walker, Accountant (01822) 813621 or email awalker@westdevon.gov.uk

1. BACKGROUND

- 1.1 The Council adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury Management service in compliance with this code. The prime objective of the treasury management activity is the effective management of risk.
- 1.2 This report summarises:
- Capital activity during the year
 - Impact of this activity on the Council underlying indebtedness (the Capital Financing Requirement)
 - Reporting of the required prudential indicators and treasury indicators
 - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on the investment balances
 - Summary of interest rate movements in the year
 - Detailed debt activity
 - Detailed investment activity

2. ISSUES FOR CONSIDERATION

- 2.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements for both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 2.2 During 2013/14 the minimum reporting requirements were that the Council should receive the following reports:
- an annual treasury strategy in advance of the year (Audit Committee)
 - a mid year treasury update report (Audit Committee 10/12/13)
 - an annual report following the year describing the activity compared to the strategy (this report)
- In addition, the Audit Committee has received quarterly treasury management reports.
- 2.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 2.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to full Council. Member training on treasury management issues was undertaken in January 2012 in order to support Members' scrutiny role.

3. THE 2013/2014 STRATEGY

- 3.1 The expectation for interest rates within the strategy for 2013/14 anticipated low but rising Bank rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates over 2013/14. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 3.2 During 2013/14, the Council complied with its legislative and regulatory requirements. The key actual indicators detailing the impact of capital expenditure activities during the year, with comparators, are shown in Appendix A.
- 3.3 The financial year 2013/14 continued the challenging environment of previous years, low investment returns and continuing counterparty risk continued.

4. BENCHMARK AND PERFORMANCE INDICATORS FOR 2013/14

- 4.1 One of the key requirements in the code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. The Council's performance indicators were set out in the Annual Treasury Strategy.
- 4.2 The table attached in Appendix B details the benchmarking exercise for all money market investments managed internally and externally against a 3-month LIBID benchmark. All the investments have been weighted appropriately to reflect the fact that their duration did not cover the whole of the financial year. The Council exceeded the benchmark of 0.39% on its investment activity, by achieving a return of 0.42% on its investments for the 2013/2014 financial year.
- 4.3 Investments held by the Council – a percentage of the investment funds managed internally by the Council are kept short to manage the capital expenditure; this has an effect on the rates that are able to be achieved. Therefore performance tends to be more stable but slightly lower over the longer term than externally managed funds.

5. INVESTMENTS PLACED 1 APRIL 2013 TO 31 MARCH 2014 AND INTEREST ACHIEVED

- 5.1 The total interest received in the 2013/2014 financial year, including accruals of interest and less the necessary deductions was 27,929.55, as detailed in the table below:

	Interest Received in the year	
Fixed Term Investments	£	15,852.75
Natwest Special Interest Bearing Account	£	4,237.19
Deutsche – Money Market Fund	£	1,882.32
Ignis – Money Market Fund	£	5,611.40
Interest on Loans	£	281.79
Interest on war stock	£	64.10
Total Interest Received 2013/14	£	27,929.55

5.2 The Council's budgeted investment income for 2013/14 was £45,321, but the actual income received was £27,929.55 due to the Base Rate remaining at 0.5%. The Council has also been restricted in the availability of counterparties to be able to invest with, due to many banks and building societies having reduced credit ratings following the banking crisis.

5.3 The interest that the deposits attracted can be divided into four groups:

(i) Fixed Term Deposits – consisting of all deposits with the exception of those placed on the Councils Business Reserve account at the Natwest Bank and Money Market Funds (see (ii) and (iii) below). The interest received will depend upon the rate applicable at the time of placement. During the period the rates attained have been as follows:

Type of Deposit	Rates attained		Average
	Highest	Lowest	
Fixed Term (UK Banks, Foreign Banks & Building Societies)	0.50%	0.39%	0.41%

Quoted rates for comparison	Highest	Lowest	Average
Base Rate	0.50%	0.50%	0.50%
3-month LIBID	0.40%	0.37%	0.39%

(ii) Natwest Special Interest Bearing Account – The balance on the account during the 2013/2014 financial year varies on a daily basis up to a maximum of £2,000,000, with the balance at the close of business on 31st March 2014 standing at £1,630,072.31. The account pays interest on a quarterly basis and has earned £4,237.19 during the 2013/2014 financial year.

(iii) Deutsche Money Market Fund – The balance held in the fund during the 2013/2014 financial year has varied between Nil and £2,000,000, with the balance at the close of business on 31st March 2014 standing at Nil. The fund

pays interest on a monthly basis and has earned £1,882.32 during the 2013/2014 financial year.

Ignis Money Market Fund – The balance held in the fund during the 2013/14 financial year has varied between Nil and £2,000,000, with the balance at the close of business on 31st March 2014 standing at Nil. The fund pays interest on a monthly basis and has earned £5,611.40 during the 2013/14 financial year.

6. THE COUNCIL'S TREASURY POSITION AT THE YEAR END

6.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investment and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2013/14 the Council's treasury position was as follows:

Treasury Position	31 March 2013	31 March 2014
Fixed Interest Rate Debt	£2,100,000	*£2,100,000
Variable Interest Rate Debt	Nil	Nil
Total Debt	£2,100,000	£2,100,000
Fixed Interest Investments	£1,000,000	£2,000,000
Variable Interest Investments (Money Market Fund)	Nil	Nil
Total Investments	£1,000,000	£2,000,000
Net Position	£-1,100,000	£-100,000

* During the year for 2013/2014 the amount of interest charged was £95,550 based on the interest rate of 4.55%.

6.2 The Council is required to pay off an element of the borrowing each year through a revenue charge (the **Minimum Revenue Provision**, MRP). The Council is recommended to approve the following MRP Statement.

For capital expenditure the MRP policy will be based on the Capital Finance Requirement (CFR) (option 2 of the regulations).

For all unsupported borrowing the MRP policy will be **Asset Life Method** – the MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (option 3 of the regulations).

This means that effectively the method used for calculating a provision to repay the borrowing is on the same basis as the life of the asset i.e. 50 years.

6.3 External borrowing under the Prudential Code was undertaken during 2007/2008 principally to finance the costs of the Council's Capital programme. The Council borrowed £2.1 million from the Public Works Loan Board (PWLb) on 2nd August 2007 at a fixed rate of 4.55% for 45 years and 6 months. Any costs of borrowing are borne in the Statement of Movement on the General Fund Balance by interest charges and the Minimum Revenue Provision for the repayment of debt. The Minimum Revenue Provision has been applied in 2013/14 and has been

calculated at £42,000 per year. This is the borrowing of £2.1 million, divided by the life of the asset of 50 years, which equates to £42,000 per annum.

7. CAPITAL FINANCING DECISION TAKEN DURING 2013/14

7.1 The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

7.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how it was financed.

	2012/13 Actual	2013/14 Actual
Total capital expenditure	1,875,000	490,084
Financed by:		
Capital Receipts	1,025,000	311,367
Capital grants & contribution	745,000	178,717
Capital Reserves	Nil	Nil
Revenue	63,000	Nil
Earmarked Reserves	Nil	Nil
Net financing need for the year	42	Nil

8. THE COUNCIL'S OVERALL BORROWING NEED

8.1 The Council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2013/14 unfinanced capital expenditure (see previous table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

8.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.

8.3 Reducing the CFR – the Council’s underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-housing Revenue Account borrowing need. This differs from the Treasury Management arrangements to ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

8.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council’s 2013/14 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Annual Report for 2012/13 on 23/07/2013.

The Council’s CFR for the year is shown below, and represents a key prudential indicator.

CFR (£m)	31 March 2013 Actual	31 March 2014 Actual
Opening Balances	£1,842,000	£1,842,000

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. The Minimum Revenue Provision has been applied in 2013/14 and has been calculated at £42,000 per year. This is the borrowing of £2.1 million, divided by the life of the asset of 50 years, which equates to £42,000 per annum.

8.6 Net borrowing and the CFR – in order to ensure that borrowing levels are prudent over the medium term the Council’s external borrowing, net of investments must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2013/14 plus the expected changes to the CFR over 2014/15 and 2015/16. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2013/14. The table below highlights the Council’s net borrowing position against CFR. The Council has complied with this prudential indicator.

	31 March 2013 Actual	31 March 2014 Actual
Net borrowing position	£2,100,000	£2,100,000
CFR	£1,842,000	£1,842,000

- 8.7 The authorised limit – the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table in 8.9 demonstrates that during 2013/14 the Council maintained gross borrowing within its authorised limit.
- 8.8 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary is acceptable subject to the authorised limit not being breached.
- 8.9 Actual financing cost as a proportion of net revenue stream – this indicator identifies the trend in cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2013/14
Authorised limit	£6.0m
Maximum gross borrowing position	£2.1m
Operational boundary	£3.0m
Average gross borrowing position	£2.1m
Financing costs as a proportion of net revenue stream	(1.65%)

9. ECONOMIC TRENDS FOR 2013/14

- 9.1 The original expectation for 2013/14 was that Bank Rate would start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year.
- 9.2 CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

- 9.3 Bank rate was unchanged at 0.5% throughout the year while expectations of when the first increase would occur were steadily pushed back until the first half of 2015.
- 9.4 The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of that year and continuing into 2013/14. The part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

10. LEGAL IMPLICATIONS

- 10.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
 - The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2012/13);
 - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
 - The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
 - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.
- 10.2 The Council has complied with all of the above relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.
- 10.3 It is a statutory duty for the Council to report its annual position on Treasury Management to the Council as set out in the Constitution by the 30th September each year.

11. FINANCIAL IMPLICATIONS

11.1 Effective Treasury Management strives to maximise investment returns whilst minimising risk and protecting capital. Shorter-term rates and likely future movements in these rates predominately determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

12. RISK MANAGEMENT

12.1 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed its treasury position. The Council uses Sector's Creditworthiness approach when deciding who to invest with in order to mitigate any investment risk. The risk management implications are:

Opportunities	Benefits
For the Council to comply with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities.	The Councils adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.
Issues/Obstacles/Threats	Control measures/mitigation
<p>The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed its treasury position.</p> <p>Shorter-term rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.</p>	The Council has utilised low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	The report meets all of the corporate priorities
Statutory powers:	See legal implications above
Considerations of equality and human rights:	N/A
Biodiversity considerations:	N/A
Sustainability considerations:	N/A

Crime and disorder implications:	N/A
Background papers:	Treasury Management Strategy and Annual Investment Strategy for 2013/14 to 2015/16 Capital Programme 2013/14 and Prudential Indicators 2013/2014
Appendices attached:	Appendix A – Prudential and Treasury Indicators as at 31 st March 2014. Appendix B – Benchmarking 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			
Page 154	Opportunity	For the Council to comply with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities.	1	1	1	↔	The Councils adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.	Head of Finance and Audit
	Risk	The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed its treasury position. Shorter-term rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.	3	1	3	↔	The Council has utilised low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.	Head of Finance and Audit

Estimated and Actual Treasury Position and Prudential Indicators

	Figures are for the financial year unless otherwise titled in italics	2012/13 Actual	2013/14 Revised Indicator	2013/14 Actual
1	Capital Expenditure	£1,875,000	£1,875,000	£490,084
2	Capital Financing Requirement (CFR) at 31 March Total	£1,842,000	£1,838,000	£1,842,000
3	Treasury Position at 31 March Total Long Term Borrowing Investments	£2,100,000 £1,000,000	£2,100,000 £2,500,000	£2,100,000 £2,000,000
4	Maximum Debt (Actual) compared to Authorised Limit (Original Indicator)	£2,100,000	£6,000,000	£2,100,000
5	Average Debt compared to Operational Boundary (Original Indicator)	£2,100,000	£3,000,000	£2,100,000
6	Ratio of financing costs to net revenue stream	1.31%	1.70%	1.65%
7	Incremental impact of capital investment decisions on the Band D council tax	£0.12	£0.13	£0.03
8	Incremental impact of capital investment decisions on the housing rent levels	N/A	N/A	N/A
9	Upper limits on fixed interest rates (against maximum position) as above	(£1,100,000)	(£3,500,000)	(£100,000)
10	Upper limits on variable interest rates (against maximum position) as above	£Nil	£750,000	£Nil
11	Maturity structure of fixed rate borrowing (against maximum position)			
	Under 12 months	NIL	10%	NIL
	12 months to 2 years	NIL	10%	NIL
	2 years to 5 years	NIL	30%	NIL
	5 years to 10 years	NIL	50%	NIL
	10 years and above	100%	100%	100%
12	Maximum principal funds invested long term (more than one year)	NIL	NIL	NIL

In addition to the above, the Council is required as a Prudential Indicator to:

- Adopt the CIPFA Code of Practice.
- Ensure that over the medium term, borrowing will only be for a capital purpose (i.e. net external borrowing is less than the CFR).

The compliance for these indicators are highlighted in the body of the report.

Notes to the Prudential Indicators

2. The Council approved the estimated Capital Financing requirement as being £1,838,000 and the actual Capital Financing requirement was £1,842,000 in 2013/14. No further borrowing has financed the capital expenditure this year.
4. The Council has also not exceeded the Authorised Borrowing Limit set of £6 million or the Operational Boundary Limit set at £3million.
10. The Council has not entered in to any Fixed Term Investments with variable interest rates during the year.
12. At 31st March 2014, the Council had no investments that were classed as 'long term' i.e. as having a maturity date after 31st March 2015.

BENCHMARKING EXERCISE 2013/2014 (Internal Managed Funds)

REF	WEIGHTED AMOUNT	START	MATURITY	BORROWER	RATE	INTEREST PAID	INTEREST ACCRUED
1194	104,110	15.03.13	22.04.13	Barclays	0.40%	418.52	
1204	131,507	02.04.13	20.05.13	Barclays	0.41%	539.18	
1204	120,548	20.05.13	03.07.13	Barclays	0.40%	487.01	
1205	241,096	15.04.13	29.05.13	Lloyds	0.40%	964.38	
1206	134,247	15.05.13	03.07.13	Barclays	0.41%	543.70	
1207	284,932	17.06.13	08.08.13	Lloyds	0.40%	1,139.73	
1208	328,767	15.07.13	13.09.13	Barclays	0.40%	1,315.07	
1209	367,123	15.08.13	21.10.13	Lloyds	0.41%	1,505.21	
1209	405,479	21.10.13	03.01.14	Lloyds	0.50%	2,027.40	
1210	191,781	16.09.13	21.10.13	Barclays	0.40%	767.12	
1211	112,329	15.10.13	25.11.13	Nationwide	0.40%	449.32	
1212	515,068	15.11.13	17.02.14	Barclays	0.45%	2,317.81	
1212	230,137	17.02.14	14.04.14	Barclays	0.39%		897.53
1213	290,411	16.12.13	07.02.14	Nationwide	0.42%	1,219.73	
1214	334,247	15.01.14	17.03.14	Lloyds	0.43%	1,437.26	

Total interest for the 2013/2014 financial year on a weighted capital sum of £3,791,781 amounts to £16,028.97 which equates to an investment return as follows:-

$$\frac{16,028.97}{3,791,781} \times \frac{100}{1} = 0.42\%$$

The average 3-month LIBID rate for the year = 0.39%

Favourable Variance = 0.03%

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NAME OF COMMITTEE	Audit Committee
DATE	23rd September 2014
REPORT TITLE	Internal Audit – Revision of and Progress against the 2014/15 Plan
Report of	Chief Internal Auditor
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to inform members of the principal activities and findings of the Council’s Internal Audit team for 2014/15 to the 31st 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:

There are no direct financial implications of the monitoring of the Internal Audit Plan. The internal audit costs for the year are as budgeted.

RECOMMENDATIONS:

It is recommended that the Audit Committee considers the revision of the 2014/15 Internal Audit Plan and the progress made against it and makes any relevant recommendations to Council.

Officer contact:

For further information concerning this report, please contact:

Allan Goodman, Chief Internal Auditor 01803 861375:

allan.goodman@swdevon.gov.uk

1. BACKGROUND

1.1 The Charter for Internal Audit was presented to the Audit Committee in April 2014 (Minute reference *AC 40 refers) and cover:

- Purpose, Authority and Responsibility;
- Independence;
- Audit Management;

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

- 1.2 The Audit Strategy was updated for 2014/15 and was approved by the Audit Committee in April 2014 (Minute reference *AC 40 refers) and covers:

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

2. PROVISION OF INTERNAL AUDIT AND PROGRESS – 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 (minute reference AC 41 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 to both Councils 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 1st October 2014 and the provision of external audit management is to reduce it for 2014/15 from 115 days to 112 days (Appendix A). It is recommended that a minimum of 115 days remains for future years. The combined South Hams and West Devon's audit plans will reduce from 630 days to 567 days for 2014/15.
- 2.10 The most significant proposed amendments to the Plan brought about by the new arrangements following the T18 Blueprinting and Time Analysis are :

Audit	Plan Days 2014/15	Plan Days Update	Reason for Change
Recruitment	2	0	Process changes likely as a result of T18, for which a separate audit budget exists.
Capital Expenditure	6	0	Approved and monitored by the Resources Committee. The majority of capital expenditure for the year is Disabled Facilities Grants which have been audited for 2014/15 under separate cover.

- 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, 7 days training 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 **Appendix B** provides a summary of the main issues raised for audits where a final audit report has been issued and action agreed.

Non Compliance with Contract or Financial Procedure Rules

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

Fraud, Corruption, Bribery and Whistle Blowing

- 2.17 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.

Internal Audit Performance Indicators

- 2.18 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.
- 2.19 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. (West Devon 100%)
Audits at the 31st July 2014 at various stages of completion from 2014/15 revised audit plan and their 2013/14 equivalents.			
WDBC	-	36%	(27% at July 2013).
SHDC	-	36%	(35% at July 2013).
Combined plan	95	36%	(33% at July 2013).

Internal Audit – Shared Services

- 2.20 The following has been achieved since the last Audit Committee:

Shared service with South Hams District Council:

- Progress on the 2014/15 audit plan reported to the South Hams Audit Committee. A growing number of audits are being completed across the two sites at the same time or as joint audits.

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 the following:

June 2014 Committee

3.2 Agenda Item 5:

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 Agenda Item 6: The Audit Committee is to be advised of any updates required to the 2013/14 Annual Governance Statement at the September 2014 meeting. to allow the Committee to approve the AGS following the change of delegation in the Constitution at the Council meeting of 22nd July 2014.

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:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Accounts and Audit Regulations 2011
Considerations of equality and human rights:	There are no specific equality and human rights issues arising from this report.
Biodiversity considerations:	There are no specific biodiversity issues arising from this report.
Sustainability considerations:	There are no specific sustainability issues arising from this report.
Crime and disorder implications:	There are no specific crime and disorder issues arising from this report.
Background papers:	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; WDBC 5-year Audit Plan 2010/11 to 2015/16.
Appendices attached:	Appendix A: Audit Plan 2014/15 Appendix B: Planned Audit 2014/15 – Final Reports: Detailed Items

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. This will result in 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.	2	2	4	↔	Regular monitoring of performance by the S.151 Officer and the Audit Committee. Audit approach adheres to the appropriate professional standards. Closer links with our neighbouring Council's audit team will provide reasonable assurance that higher risk audits are covered each year without fail, 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 started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
						Excell'nt	Good	Fair	Poor	
MAS & Budgetary Control	4									
Creditor Payments	2									
Payroll	5	■								7% completed.
Council Tax	6	■								18% completed.
Business Rates (NDR)	6	■								12% completed.
Benefits	7									
Debtors	2									
Treasury Management	2									
Main Financial Systems	34									
Recruitment	0	X	X	X	X	x	X	X	x	Was 2 days. Removed from Plan.
Community Safety and Emergency Planning	2	■	■	■	■		■			Summary to Audit Committee - September 2014
Private Sector Housing Renewal	4	■	■							Draft report issued 04.08.2014
Car Parking	4									
Capital Expenditure & Receipts	0	X	X	X	X	x	X	x	x	Was 4 days. Removed from Plan.
ICT / Computer Audit	3									
Local Welfare Support	2									
Use of Internet and Email	3	■	■	■	■		■			Summary to Audit Committee - September 2014
Development Control	4									
Data Quality incl. PIs	5	■								Strategy only.

Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
Risk Management	3									
Corporate Governance System of Internal Control (SIC) & Annual Governance Statement (AGS)	5	■	■	■	■	-	-	-	-	Review of the Code of Corporate Governance presented to June 2014 Audit Committee under separate cover. Reports to the July and September 2014 Audit Committee for review and approval of the AGS.
Shared Services	5	■	■							Draft report issued 21.07.2014
Sustainability	4	■	■	■	■		■			Summary to Audit Committee - September 2014
T18 Transformation Programme	5	1.5 days used								
Specific Counter Fraud Work	3	■								90% completed.
Follow Up of Previous Year's Audits	5	0.25 days used	-	-	-	-	-	-	-	
Contingency (Unplanned)	5	3 days used	-	-	-	-	-	-	-	Minor control and governance issues, advice on financial controls and procurement procedures given to service officers at all levels and contribution to various draft policies & strategies. <ul style="list-style-type: none"> • Review and process of 3 applications for Exemption from Contract Procedure Rules (CPR); • Update of CPRs for June Audit Committee; • Audit Commission fraud survey; • Letters to Grant Thornton; • Advice on new Temporary Accommodation Charging Policy; • T18 various; • Counter fraud publicity; • Additional individual internet and e-mail monitoring as requested my managers.
Other Systems & Audit Work (Revised)	62									

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Progress Against the 2014/15 Internal Audit Plan

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Finalised	Opinion (finalised reports only)				Comments
Management & Supervision	8	6 days used	-	-	-	-	-	-	-	Planning; Monitoring; Supervision; File Review; Preparing Reports for, and attending, the Audit Committee; Audit Committee workshop; Meetings with the Section 151 Officer; Meetings with the Section 151 and Monitoring Officers; Liaison with the external auditor; etc
External Management & Supervision	8	-	-	-	-	-	-	-	-	
Total (Revised)	16									
Overall Total (Revised)	112									

Planned Audit 2014/15 – Final Reports

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 (continued)

September 2014 Audit Committee

Subject	Audit Findings	Management Response
<p>Use of Internet and Email Issued 20.06.2014 Joint report with South Hams District Council (SHDC)</p>	<p>Good We are pleased to be able to report that the majority of internet access is conducted within the guidelines adopted by the Council.</p> <p>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.</p> <p>Audit examination of the use of emails confirmed that the email content was not deemed to be inappropriate and no further action was required.</p>	<p>Updated policies regarding email and internet use will be issued to staff later in the year.</p> <p>Managers have also been reminded that where music and radio are accessed from Council computers the site they are located should be appropriately licensed.</p>
<p>Community Safety and Emergency Planning Issued 30.06.2014 <i>Continued overleaf.</i></p>	<p>Community Safety – Good</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 West Devon Borough, South Hams District and Teignbridge District Councils. Governance arrangements are in place and operating for the management of the Partnership.</p> <p>There is one issue which we wish to raise in relation to data protection. Examples of anti-social behaviour work are detailed in the CSP's 2012/13 annual report taken to Overview and Scrutiny. Some perpetrators who have been subject to court action are named in the report as their details are already in the public domain. However those perpetrators who have not been to court have been anonymised. But this has been done in such a way that the combination of information provided would still allow some of them to be identified.</p> <p>It is because of this that we have given the audit opinion of Good, rather than Excellent.</p>	<p>This year's CSP reports to Overview and Scrutiny were amended in light of this recommendation.</p>

Planned Audit 2014/15 – Final Reports (continued)

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Subject	Audit Findings	Management Response
<p>Community Safety and Emergency Planning (Continued) Issued 30.06.2014</p>	<p>Emergency Planning – Good</p> <p>The Council appears to be meeting its statutory duties with regards to emergency planning under the Civil Contingencies Act.</p> <p>However there are some issues which we raised in the South Hams 2013/14 Emergency Planning audit report, which also apply to WDBC, which have not yet been implemented due to other priorities:</p> <ul style="list-style-type: none"> • There is no formal record of emergency planning training received by Council officers through the Local Resilience Forum; • There is no formal mechanism for ensuring that the Councils’ Business Continuity Plan, either at a corporate level or at a service level, is reviewed annually and includes new risks as they are identified; and • Arrangements for potential alternative accommodation in the event of an emergency should be confirmed, both for the Councils and their tenants at the headquarters. 	<p>The database which was previously started will be re-opened and regular reminders sent to relevant officers asking them to enter any training they have received.</p> <p>With major changes coming under T18 with SMT restructure and the introduction of the new operating model these changes are best brought into effect after its introduction.</p> <p>It would be useful to ensure that managers within the new model are given the opportunity to receive appropriate training.</p> <p>Agreed</p>

Planned Audit 2014/15 – Final Reports (continued)

Subject	Audit Findings	Management Response
<p>Sustainability Issued 25.06.2014 <i>Joint audit with South Hams.</i></p>	<p>Good</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>Economic / Business sustainability 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>Social / Community sustainability 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 (continued)

Subject	Audit Findings	Management Response
<p>Sustainability (continued) Issued 25.06.2014 <i>Joint audit with South Hams.</i></p>	<p>Good</p> <p>Environmental sustainability 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"> • The need to ensure that staff using their own vehicles for business purposes are appropriately insured, have a valid MOT and driving licence etc; • Raising awareness and providing guidance to staff to embed sustainability in day to day activities including promoting car sharing; and • Incorporating consideration of sustainability into Corporate Procedure Rules. 	<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 – Work Complete (No Audit Report)

Subject	Comments
Compliance Review of the Code of Corporate	Member report setting out the work done to review the Council's compliance with its Code of Corporate Governance, in line with the CIPFA/SOLACE guidance, presented to the June 2014 Audit Committee. Issues raised are included in the Annual Governance Statement which was presented to the Audit Committee at the meeting of July 2014.
System of Internal Control (SIC), and Annual Governance Statement (AGS)	A report setting out the work done to enable the AGS to be completed in line with the CIPFA/SOLACE guidance was presented to the July 2013 Audit Committee. The Council of the 22 nd July 2014 agreed to amend the constitution to allow the Audit Committee to approve the AGS on behalf of the Council. The AGS will be published in September 2014, following an update to the Statement reported with this Audit Committee agenda.
Exemptions to Financial Procedure Rules	See table at Appendix A.

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

September 2013 Audit Committee

Subject	Comments
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
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.
Use of Agency Staff	Memo sent, one reply to date. Meeting to be arranged with other officers.

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It was **RESOLVED** that the Annual Governance Statement 2013/14 be approved and adopted and it be noted that there had been no changes to the draft Statement as considered by the Committee in July 2014.

AC 19 AUDIT OF THE ANNUAL STATEMENT OF ACCOUNTS 2013/2014

Arising from Minute No AC 11 – 2014/2014, the Head of Finance & Audit presented a report (page 33 to the Agenda) on the audited Statement of Accounts for 2013/2014 and the Letter of Representation.

The draft Annual Statement of Accounts was considered by the Audit Committee on 22nd July 2014 and audited by the Council's External Auditors, Grant Thornton, during July and August 2014. Post audit changes had been incorporated within the accounts in line with Grant Thornton's recommendations contained within their "Audit Findings Report" (Minute No. AC 19 – 2014/2015 below refers).

Two appendices were presented with the report with Appendix A being the Financial Statements and Technical Appendix 2013/2014 (page 37 to the Agenda), and Appendix B being the Letter of Representation (page 114 to the Agenda).

Arising from discussion, Cllr Moody reported that with Cllr Ball, he had been undertaking a review of the usage of the Borough Council's car parks. The review was to identify the peaks and troughs of usage and whether any fee structure differentials would be beneficial to the Council. The review was complex and was continuing.

It was **RESOLVED** to **RECOMMEND** that:

- (i) the Financial Statements and the Technical Appendix as given in Appendix A be approved and adopted; and,
- (ii) the wording of the Letter of Representation as given in Appendix B be also approved and signed by the Chairman and Head of Finance & Audit.

***AC 20 AUDIT FINDINGS REPORT**

Grant Thornton (external auditors) presented their Audit Findings report for the year ending 31st March 2014 (page 118 to the Agenda). In the Executive Summary of their report, Grant Thornton said that they:

- (a) had identified a presentational error within the financial statements which had been rectified, however, as it did not affect the reported reserves, Grant Thornton expected to issue an unqualified opinion;
- (b) proposed to give an unqualified opinion on the Value for Money conclusion; and,
- (c) had no issues to highlight in respect of the Whole of Government Accounts.

In their conclusion, Grant Thornton said "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, *West Devon Borough Council* put in place proper

arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014”.

It was **RESOLVED** that the report be received and noted.

AC 21 TREASURY MANAGEMENT – ANNUAL REPORT 2013/2014

The Head of Finance & Audit presented the Annual Treasury Report (page 144 to the Agenda) which reviewed the treasury management activities and the actual prudential and treasury indicators for 2013/2014 as required by the Local Government Act 2003. There were no financial implications directly attached to the report but there was a budgeted investment income of £34, 321 and the actual outturn for the year was £27,929.55. The report also showed that the Council had exceeded the benchmark of 0.39% return on its activities by achieving a 0.42% return on its investments up to 31st March 2014.

Two appendices were presented with the report with Appendix A being the Prudential and Treasury Indicators as at 31st March 2014 (page 156 to the Agenda), and Appendix B Benchmarking (page 158 to the Agenda).

It was **RESOLVED** to **RECOMMEND** that:

- (i) the Treasury Management Report for 2013/2014 be received and noted;
- (ii) the actual prudential indicators for 2013/2014 as shown in Appendix A, be noted; and,
- (iii) the Minimum Revenue Provision Statement as detailed in paragraph 6.2 of the officer’s report (page 148 to the Agenda) be also noted.

AC 22 INTERNAL AUDIT – REVISION OF AND PROGRESS AGAINST THE 2014/15 PLAN

Arising from Minute No AC 41 – 2013/2014, the Chief Internal Auditor presented a report (page 159 to the Agenda) detailing the principle activities and findings of the Council’s Internal Audit team for 2013/2014 to the 31st July 2014, by:

- (a) highlighting the need to revise the internal audit plan for 2014/2015 to reflect the impact of the T18 Transformation Programme blueprinting;
- (b) providing a summary of the main issues raised by completed individual audits; and,
- (c) showing the progress made by the Internal Audit Section against the 2014/2015 annual audit plan and reviewed by this Committee in April 2014.
- (d) future choice of External Auditor. The Head of Finance & 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 South Hams District Council, the recommended appointment for both councils was no longer Grant Thornton. The recommendation was out for consultation

until 10th October 2014 and the Committee felt that, in light of the loss of corporate knowledge and the need for continuity at this stage in 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.

Two appendices were presented with the report with Appendix A being the Audit Plan for 2014/2015 (page 167 to the Agenda) and Appendix B being the Planned Audit 2014/2015 Final reports (page 170 to the Agenda).

The audit plan was continuously reviewed and updated to reflect emerging risks and, depending upon their significance, these were incorporated into the plan either through contingency days or by making changes to the plan.

In progressing the T18 Transformation Programme, the provision of the internal audit service was considered by the Senior Management Team. A number of options were considered but the final decision was that the role of Chief Internal Auditor be made redundant whilst retaining two Council employed internal auditors. Ultimately the two current internal auditors were successful in their respective applications. The post of Chief Internal Auditor was made redundant; the service would now be managed by Devon Audit Practice. The Internal Audit Plan had been amended accordingly to take account of new working practices.

Arising from Minute No AC 13 – 2014/2015, the Head of Finance & Audit reported that she had written to the Audit Commission requesting that just one audit company provide external audit services to both South Hams District and West Devon Borough Councils. Regrettably the Audit Commission whilst agreeable to having just one company to provide services to both Councils, decided that a company other than Grant Thornton be so appointed.

It was agreed that the Head of Finance & Audit write again to the Audit Commission to retain the external audit services provided by Grant Thornton for continuity at the time of great upheaval and change affecting both Councils.

It was **RESOLVED** to **RECOMMEND** that:

- (i) the revisions being made to the 2014/2015 Internal Audit Plan and the progress being in achieving the aims of the Plan be noted; and,
- (ii) 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.

(The Meeting terminated at 3.13 pm.)