

Public Document Pack



West Devon
Borough
Council

WEST DEVON AUDIT COMMITTEE - TUESDAY, 25TH NOVEMBER, 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 - Mid Year Prudential Indicator and Treasury Management Monitoring Report 2014-2015 (Pages 7 - 24)
- b) Item 6 - Value Statement November 2014 (Pages 25 - 38)
- c) Item 7 - The Annual Audit Letter for West Devon Borough Council (Pages 39 - 46)
- d) Item 8 - West Devon Borough Council Audit Committee Update (Pages 47 - 62)

3. **Minutes** (Pages 63 - 66)

This page is intentionally left blank

Agenda Item 1

AGENDA – AUDIT COMMITTEE – 25th NOVEMBER 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).

Page

MINUTES

4. **Confirmation of Minutes**

Meeting held on 23rd September 2014 (previously circulated)

OPERATIONAL

5. **Mid Year Prudential Indicator and Treasury Management Monitoring Report 2014-2015**

Report of the Finance Community of Practice Lead 6

6. **Value Statement November 2014**

Report of Grant Thornton (External Auditors) 19

7. **The Annual Audit Letter for West Devon Borough Council**

Report of Grant Thornton (External Auditors) 33

8. **West Devon Borough Council Audit Committee Update**

Report of Grant Thornton (External Auditors) 40

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						

This page is intentionally left blank

NAME OF COMMITTEE	Audit Committee
DATE	25 November 2014
REPORT TITLE	Mid Year Prudential Indicator and Treasury Management Monitoring Report 2014-2015
Report of	Finance Community of Practice Lead
WARDS AFFECTED	All

Summary of report:

This report highlights the key changes to the Council's capital activity (the prudential indicators), the economic outlook and the treasury management activity (borrowing and investment) for the first six months of the financial year.

Financial implications:

The monitoring report shows that the Council outperformed the industry benchmark of 0.36% on its investment activity, by achieving a 0.45% return on its investments up to 30 September 2014.

RECOMMENDATIONS:

The Audit Committee is asked to recommend the following to Council:

1. Note the report, the treasury activity and recommend any changes to the prudential indicators

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 operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council.

1.3 Accordingly treasury management is defined as:

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

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

2. ECONOMIC UPDATE

2.1 Economic forecasting remains difficult with many external influences weighing in on the United Kingdom.

2.2 It appears likely that strong growth in UK Gross Domestic Product will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years.

2.3 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

2.4 The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

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

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%
10yr PWLB rate	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

- 2.6 Capita Asset Services undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

3. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

Overview

- 3.1 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 11 February 2014. No policy changes to the TMSS are proposed in this report. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

1. Security of Capital
2. Liquidity
3. Return (yield)

- 3.2 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in higher rates, with highly credit rated financial institutions, using Capita's suggested creditworthiness approach. This includes reference to the sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita.

Treasury Position at 30 September 2014

- 3.3 Our investment position at the beginning and mid-point of the financial year is as follows:

	As at 30/09/2014		As at 31/03/2014	
	Principal £	Interest %	Principal £	Interest %
SIBA	1,045,898	Daily Rate	1,630,072	Daily Rate
Short Fixed	4,000,000	0.45	2,000,000	0.46
Long Fixed	-	-	-	-
Money Market	700,000	0.32	-	-
Funds			-	-
Total	5,745,898		3,630,072	

3.4 There is a cashflow advantage during the year due to the timing of when the precepts are paid to precepting authorities.

3.5 The following is a list of our fixed term investments at 30 September 2014:

	Fixed to	£	Interest rate
*Barclays Bank	25.11.14	2,000,000	0.47%
**Lloyds TSB	13.01.15	2,000,000	0.57%
Nationwide BS	21.10.14	2,000,000	0.46%

*Rolled over from original maturity date of 16th October 2014

**Rolled over from original maturity date of 13th October 2014

3.6 A list of our fixed term investments for the first six months of the financial year is detailed in Appendix C.

Performance Assessment

3.7 The Council's budgeted investment return for 2014/15 is £40,321, and £10,555.93 has been received to date.

3.8 Industry performance is judged and monitored by reference to a standard benchmark; this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of September was 0.36% which is 0.09% lower than our weighted average return of 0.45%. The reason we are exceeding this benchmark is due to the use of fixed term deposits. (see details in 3.3).

3.9 The Treasury Management Strategy is risk averse with a very high credit rating required together with a limit of £2 million per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix A).

3.10 The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement (TMSS) is meeting the requirement of the treasury management function.

Compliance with Treasury Limits and Prudential Indicators

3.11 During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and

Annual Treasury Strategy Statement. The Council's Prudential Indicators for 2014/15 are detailed in Appendix B.

4. LEGAL IMPLICATIONS

4.1 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 2014/15);
- 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 Department for Communities and Local Government (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.

4.2 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.

5. FINANCIAL IMPLICATIONS

5.1 The unprecedented financial crisis has resulted in significant interest cuts around the world and interest rates are currently at a record low level with the bank base rate at 0.5%. This, coupled with adopting a risk adverse investment strategy, has meant a significant drop in the level of investment income that supports the revenue budget. To illustrate how falling interest rates are affecting the Council, in 2007/08 we had investment income of £720,000. In 2013/14 the Council achieved £27,930 in investment income, a reduction of £692,070 since 2007/08.

6. RISK MANAGEMENT

6.1 The Council is aware of the risks of 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 shown in the strategic risk template at the end of this report.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Sound financial management underpins all of the Council's 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 2014/15 to 2016/17
Appendices attached:	Appendix A – Counterparty List Appendix B – Treasury Indicators Appendix C – Benchmarking Internally Managed Funds

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 & direction of travel			
	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 Council's 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
Page 13	Risk	The Council is aware of the risks of 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

APPENDIX A

WEST DEVON BOROUGH COUNCIL - LENDING LIST AS AT 30 SEPTEMBER 2014.

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

This page is intentionally left blank

APPENDIX B

PRUDENTIAL INDICATORS

THE CAPITAL PRUDENTIAL INDICATORS

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

CAPITAL EXPENDITURE

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

Capital Expenditure	2012/13 Actual £000	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Total	1,875	490	841	801	701

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

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2012/13 Actual £000	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Total	1,875	490	841	801	701
Financed by:					
Capital receipts	1,025	311	100	100	
Capital grants	745	179	186	239	239
Revenue Reserves	63				
New Homes Bonus			555	462	462
Net borrowing need for the year	42	Nil	Nil	Nil	Nil

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.

Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has none of these such schemes within the CFR.

£m	2012/13 Actual	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement					
Total CFR	1,838	1,842	1,800	1,758	1,716
Movement in CFR	0	(42)	(42)	(42)	(42)
Movement in CFR represented by					
Net financing need for the year (above)	42	0	0	0	0
Less MRP and other financing movements	(42)	(42)	(42)	(42)	(42)
Movement in CFR	0	(42)	(42)	(42)	(42)

Debt Rescheduling

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

The Council has not undertaken any debt rescheduling during the first six months of 2014/15.

AFFORDABILITY PRUDENTIAL INDICATORS

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

Ratio of financing costs to net revenue stream

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

	2012/13 Actual	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Ratio of net investment income to net revenue stream (surplus).	1.3%	1.6%	1.5%	1.6%	1.6%

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

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

The Council is not undertaking any borrowing to fund its Capital Programme at present.

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

	2012/13 Actual £	2013/14 Actual £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Future incremental impact of capital investment decisions on the band D council tax (Notional cost)	0.07	0.13	0.03	TBA	TBA

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

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

Operational Boundary	2013/14	2014/15	2015/16	2016/17
	£	£	£	£
Borrowing	3,000,000	3,000,000	3,000,000	3,000,000
Other long term liabilities	-	-	-	-
Total	3,000,000	3,000,000	3,000,000	3,000,000

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period.

Operational Boundary	2013/14	2014/15	Current	2014/15
	Actual	Original	Position	Revised
	Position	Estimate		Position
Prudential Indicator – Capital Financing Requirement				
CFR	1,842,000	1,800,000		1,800,000
Prudential Indicator – External Debt/ the Operational Boundary				
Total Debt 31 March 2014	2,100,000	2,100,000	2,100,000	2,100,000

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

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

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

Authorised limit	2014/15	2014/15	2014/15
	Original	Current	Revised
	Indicator	Position	Indicator
	£	£	£
Borrowing	6,000,000	2,100,000	6,000,000
Other long term liabilities	-	-	-
Total	6,000,000	2,100,000	6,000,000

This page is intentionally left blank

BENCHMARKING OF INTERNALLY MANAGED FUNDS

Weighted Amount £	Start Date	Maturity Date	Borrower	Interest Rate	Interest Paid £	Interest Accrued £
153,846	01.04.14	14.04.14	Barclays	0.39%	299.18	
483,516	14.04.14	28.05.14	Barclays	0.40%	959.56	
868,132	15.04.14	03.07.14	Lloyds	0.30%	1,298.63	
934,066	15.05.14	08.08.14	Nationwide	0.47%	2,189.04	
1,010,989	16.06.14	16.09.14	Barclays	0.47%	2,369.32	
153,846	16.09.14	25.11.14	Barclays	0.45%		345.21
846,154	15.07.14	13.10.14	Lloyds	0.57%		2,404.93
505,495	15.08.14	21.10.14	Nationwide	0.46%		1,159.45
4,956,044					7,115.73	3,909.59

* Note: These investments have been weighted appropriately to reflect the fact that their duration does not cover the whole term of the period reported.

Total interest for the period on a weighted capital sum of £4,956,044 amounts to £11,025 which equates to an investment return as follows:-

$$\frac{\pounds 11,025}{\pounds 4,956,044} \times \frac{365}{182} \times \frac{100}{1} = 0.45\%$$

$$\text{The average 7-Day LIBID for the period} = 0.36\%$$

$$\text{Favourable variance} = 0.09\%$$

This page is intentionally left blank

Continuing to deliver value to West Devon Borough Council

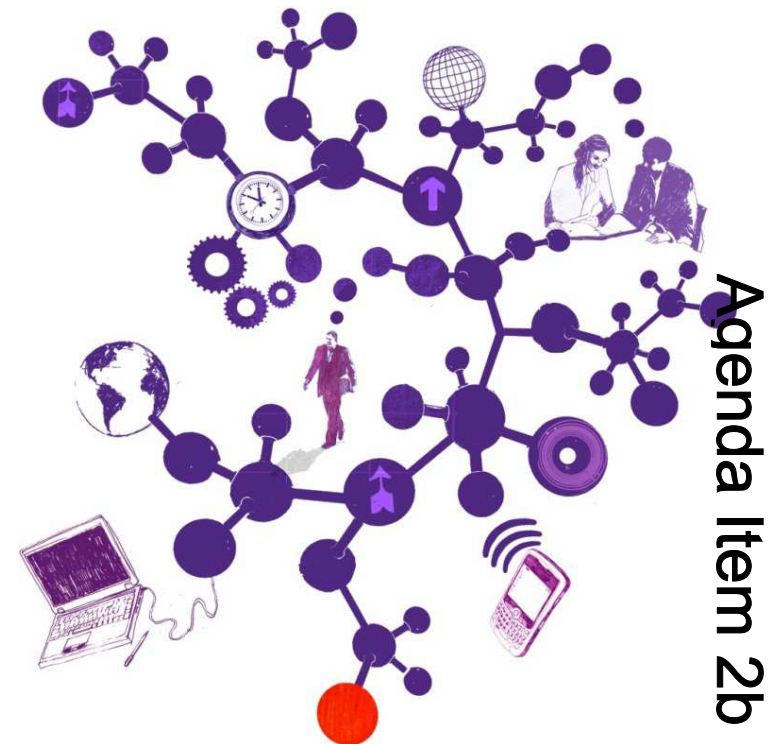
25 November 2014

Page 25

Barrie Morris
Engagement Lead
T 0117 305 7708
E barrie.morris@uk.gt.com

Steve Johnson
Audit Manager
T 07880 456 134
E steve.p.johnson@uk.gt.com

Toby Bundy
Executive
T 0117 305 7836
E toby.bundy@uk.gt.com



“

With one year remaining on our Audit Commission contract, I wanted to take an opportunity to reflect on the relationship we have continued to build with you since 2007.

You are a highly valued client of the firm and I hope we demonstrated this during the audit. We pride ourselves on delivering a high quality service and have set ourselves the goal of being second to none in our client care. To help us achieve this, we propose to carry out an independent client service review with you in the coming year. More informally, I would value any feedback from you or your team on areas where you believe we could improve our service to you.

I thought it would be useful to summarise the services we have provided during the year, and to demonstrate how we feel we have added value to you through the other work we do with you. We have made investment in our relationship with you this year, and have included some thoughts as to how we could build on this in the future.

We think our knowledge of the Council, coupled with our wider experience of the Local Government sector, puts us in a strong position to help you with the challenges you face.

We look forward to the opportunity to demonstrate our desire and enthusiasm to work with you in these challenging times.

”

Barrie Morris

Engagement Lead

for Grant Thornton UK LLP

Contents

Contents	
How we brought you added value this year	4
Supporting corporate governance	5
Focus on financial resilience	6
Welfare reform and alternative delivery models	7
Our unique credentials	8
National and local expertise	9
Experience of Local Government issues	10
Helping to address your challenges	11
Your client service team	12
Our fees	13

The client names quoted within this proposal are disclosed on a confidential basis. All information in this document is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

How we brought you added value this year

Council leadership

We:

- provided assurance on financial reporting and financial resilience by giving a timely audit opinion and value for money conclusion
- shared our thinking on key issues, including issuing members and management with our annual reports on Governance and Financial Health (Tipping Point) and our reports on Pensions Governance, Alternative Delivery Models and Welfare Reform.
- provided independent review of the Council's Business Plan for Transformation (T18).
- assisted the Council with VAT and Employment Tax advice as part of its response to HMRC investigations.

Page 28

Audit Committee

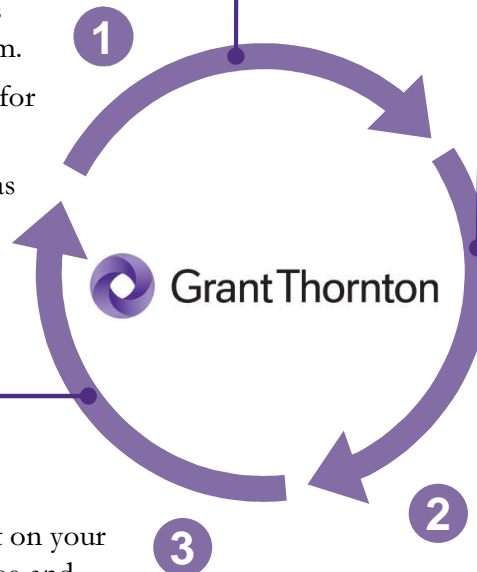
We:

- provided independent external audit commentary and insight on your key issues through senior attendance at every audit committee and shared a LG publication to help members of local authority audit committees understand the financial statements and discharge their responsibilities as they review the accounts.
- invested in regular dialogue with the audit committee to ensure there were no surprises and to maintain a robust and independent stance throughout our audit.
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments.

Council management

We:

- ensured a smooth external audit process through regular dialogue and meetings to promptly discuss financial accounts opinion audit and other issues including WGA and grant certification work to ensure you submit accurate figures to central government.
- shared technical knowledge, provided early warning on key risks and provided an opportunity to network with other Local Government bodies at our annual finance seminar
- completed a comprehensive financial resilience assessment report in addition to our work on the value for money conclusion, commenting on your long term financial resilience.
- introduced you to Duncan Groves, a Director in Employment Tax, to review and discuss your employment taxes and the scope for us delivering a taxes support helpline.
- liaised with internal audit to minimise duplication

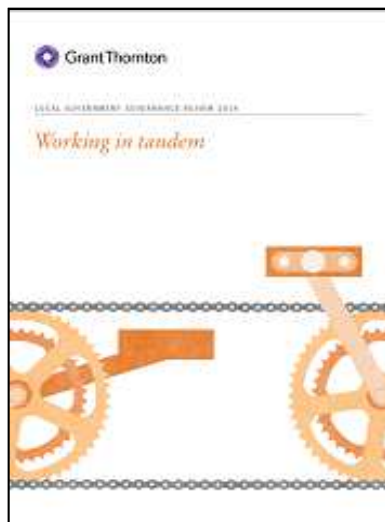


Supporting corporate governance

Each year, we review good governance in Local Government as part of our wider analysis of UK governance practice. This complements our reviews on corporates in the FTSE 350, the NHS and charities. We aim to help organisations improve their governance by learning from other sectors and their peers and to identify examples of good practice and areas where there is scope for further development.

Our national reviews of Local Government corporate governance include analysis of the financial statements and survey responses. We include insight from similar reviews we undertake at FTSE 350 listed companies, which allows us to promote the highest standards of good governance and public reporting. Some key highlights are set out opposite.

We would be happy to engage with you during the year to benchmark your performance against the national group. In this way, you can benefit from good practice across our national Local Government client base.



Download findings from our Improving Local Government report from March 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/>

One third of respondents said their organisations do not actively engage with local communities about what information they want on performance, finance and governance.

One third of respondents said the annual governance statement failed to explain how the authority handled risks

One third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand

The governance working group cited transparency and accountability as two compelling reasons for publishing annual reports.

'National tools improve governance arrangements by giving a framework... but most of the work needs to be locally driven and locally responsive'

Survey response



Focus on financial resilience

In the current challenging economic climate, we invest in providing enhanced analysis and reporting on your financial resilience. This includes a RAG rated assessment of where you are performing well and any areas requiring increased attention.

We reported the findings from our 2012/13 financial resilience review to the September 2013 audit committee. Some key highlights from our work are set out opposite. Our national report on Local Government financial resilience was published in December 2013. It draws on the results of our assessment of financial resilience across all of our Local Government bodies in England. Your plans to develop a radical new approach to setting the budget in 2015/16 were featured as a best practice case study within this report under strategic financial planning.

We are also able to benchmark you against your peers to help support continued improvement. We can provide and discuss more detailed comparative data with you and consider what this means for your financial resilience, if that is of interest.



Download findings from our National Financial Resilience report from December 2013:

<http://www.grant-thornton.co.uk/en/Publications/2013/2016-tipping-point-Challenging-the-current-/>



Good performance against your financial targets for the year.

Well-engaged Members contributing to strong financial governance.

Good financial control, including effective internal budget monitoring.

Welfare Reform and Alternative Delivery Models in Local Government



Page 31

In 2013, we surveyed a sample of 39 clients in the local government sector and 44 in housing associations in England

The report focuses on the governance and management arrangements being put in place nationally across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and the risks on the reform agenda in the wider context of social impact. The key messages include:

- There is evidence of a pro-active approach in addressing the current and future impact of welfare reform through effective communications with stakeholders
- There is scope for closer working between local authorities, housing associations and other partners – including the NHS - to ensure that homelessness and disruption is minimised and that employment opportunities are maximised
- The full impact of reform has yet to be felt; there is an element of calm before the storm

In 2013, we surveyed a sample of 70 clients in the local government sector and identified nearly 40 different services they had externalised and provided under an alternative delivery model.

This report

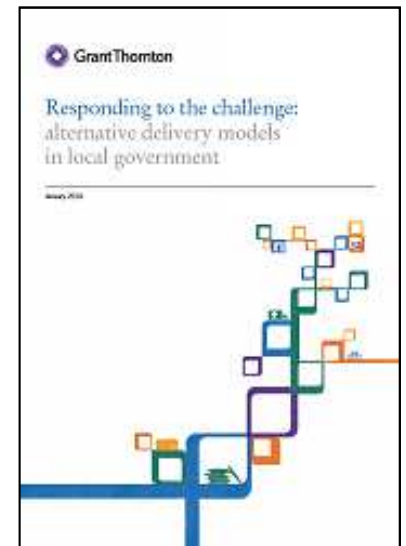
- outlines the main alternative delivery models
- aims to assist other authorities as they develop their options and implement innovation strategies
- considers aspects of risk.

Download findings from:
our National Welfare
Reform report from
February 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Reaping-the-benefit-First-impressions-of-the-impact-of-welfare-reform/>

Download findings from
our Alternative Delivery
Model report from
January 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/>



Our unique credentials

**Biggest
UK CIPFA employer**



Overview

West Devon are an ambitious Council with a vision for regeneration and a sustainable community. We are proud to be associated with you. You are important to us and we are passionate about supporting you to achieve your strategic goals and the rotation of auditors provides an opportunity to develop the support we can offer

As the largest supplier of external audit to local government in the country, we are uniquely placed to work with you and support you in achieving your goals. We understand the political and public sector environment you work in and the challenges and pressures you are facing. We have a genuine insight and understanding into your business and your needs, from our many decades of dedication working in the public sector and our longstanding commitment to local government and working with you over the last ten years.

With Grant Thornton, you benefit from the full commitment of an experienced team that has worked together over many years and has a passion for helping you achieve your success.

We believe in Local Government. All our Local Government specialist staff know and understand the unique issues faced by the Local Government bodies. We have the experienced resources available to meet your needs and support you in responding to the challenges you face. Our commitment to you is that we will work with you and help and support management and the Audit Committee in achieving your goals. We believe that with our extensive knowledge of the Council and our highly skilled and experienced local audit team, we are exceptionally well placed to support the Council over the next few critical years.

At a national level, our extensive access to our wider audit practice, our networks with central government, local government and healthcare bodies and

our focus on people as the driving force for quality and innovation set us apart. Grant Thornton benefits you by:

- bringing its commitment to improving public sector financial and service management for the benefit of users
- fielding local experts in the strategic and operational needs of the Council
- sharing best practice, knowledge and up to date information from across local government, drawing on the knowledge gained from our unparalleled market share
- delivering a high-quality audit focused on the specific issues facing District councils. We audit more District Councils than any other audit firm and draw on the insights this provides us to tailor our work with you.

At a local level, we offer you:

- a locally based audit team which understands the Council, its direction and objectives and the environment in which you operate, identifying areas where we can support you
- an audit team which is not afraid to deliver difficult messages to you and provide robust challenge to management
- a proven track record of delivering high quality audit work, working with you in partnership to deliver better services for local people.

We are confident we can continue to meet your requirements for a comprehensive, efficient and effective external audit service. You will benefit from our relationship as you face the challenges of delivering a modern and customer focused service. We look forward to continuing our working relationship with you for 2014/15.

National and local expertise

138

Local Government
audit clients

400+

Dedicated public
sector staff

National credentials

- Through our Audit Commission framework contract, we have been **external auditors to Local Government since 1982**. Over this time, and based on the quality of our work, we have increased our Local Government audit presence.
- Following the outsourcing of the Audit Commission's in-house audit practice we are proud to be **largest external provider of audit services** to Local Government, serving **40% of the market**.
- We are currently **auditors to 138 Local Government authorities**.
- We have audit staff on secondment to local authorities, helping our staff learn about local government from the inside out. We also train our staff on the latest developments within Local Government. We also receive staff on secondment from clients. We would be happy to discuss secondment opportunities with you.
- We also deliver a national programme of GT closedown workshops in partnership with CIPFA FAN; a joint approach which allows the opportunity for delegates to hear both the key accounting issues and the audit considerations for the accounts in one combined event.
- We intend to deliver a series of Local Government Audit Committee conferences for Members, the first of which was in the summer of 2014, to encourage better governance in Local Government.

Local focus

- Our South West and Wales Public Sector Assurance team is made up of over **75 dedicated local government and NHS external audit specialists** with extensive skills and experience with local Government. The regional team undertakes external audit services for **3 County Councils, 14 Unitary Councils, 22 District Councils and 31 other local government, pension, police and fire authorities**.
- We have audited a number of other bodies over the last few years, and are currently auditing 10 Foundation and NHS Trusts and 11 Clinical Commissioning Groups (CCGs) in the south west region. We therefore have extensive knowledge of partnership working across health and social care.
- We work flexibly across our assurance and teams. For example, we have a **rolling programme of secondments into the team**, which gives our auditors the broader perspective that our clients appreciate.
- We also have VAT, employment tax, real estate, infrastructure, governance, performance improvement and anti-fraud experts with significant experience of our current Local Government clients

All of this means that our Local Government clients can be assured of relevant expert knowledge and expertise to support them with current and forthcoming challenges.

Experience of Local Government issues

We have significant experience of the local government sector, and are aware that this is a challenging period for Local Government.

Challenges include the Welfare reforms, the introduction of joint social care, rising demand for services, demands for higher and more consistent quality of service, the reduction of central government grants, the localisation of funding and increasing financial pressures.

Our experience, both locally and nationally, has enabled us to develop a number of audit and services to support our clients in achieving their objectives. We set out opposite some of our areas of specialism:

Page 34



Regulatory requirements

- Value-added assurance services; external audit; internal audit; governance reviews; financial reporting reviews; IFRS reporting; risk management including IT and systems assurance

Governance

- Advice on governance including: assessment of governance effectiveness and the roles, responsibilities and capabilities of individual directors, working with leaders and Members developing strategy

Efficiency agenda

- Operational services reorganisation; turnarounds; skills gap analysis; performance management; service and cost savings reviews; costing analysis and benchmarking; shared service project support; procurement support; treasury and finance department reviews

Managing infrastructure

- PFI work providing: bid evaluation; refinancing; feasibility studies; preparation of business cases; risk analysis and public sector comparator (PSC) development; development of payment mechanisms; financial modelling; and funding competitions

Asset management

- use of assets for regeneration, reviews of efficiency and cost in use; diagnostics of performance of inventory, evaluating and prioritising options and implementing rationalisation of assets.

Major investments, mergers and acquisitions

- Investment appraisals; business case support; investment due diligence; due diligence and services

Establishment of property trading arms and companies

- assisting with procurement of development partners, structuring and establishing development vehicles such as Strategic Partnerships, Local Asset Backed Vehicles, and Joint Venture Companies

Alternative Delivery Models

- Outsourcing; quantitative data analysis and stakeholder interviews, benchmarking results against our database of outsourced partnership activity

Tax advice

- Corporate and international tax; indirect tax; employer solutions

Helping to address your challenges

Area of focus	Your challenges	Examples of how we have helped you and other Local Government bodies
<p>Optimise operations</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 35</p>	<ul style="list-style-type: none"> • Significant budget shortfalls - you face a significant challenge over the forthcoming three years (2015/16 to 2017/18) to find £2.2m of savings in your budget plans, which represents 28% of the budget of £7.9m. • T18 transformation programme – The joint programme with South Hams will integrate and transform both council's over the next four years. The first phase of the programme (support services) went live on the 29th September 2014. • Effectiveness: The T18 programme aims to meet future challenges, by looking at every service to review the outcomes, needs, service models and resources. Your work will focus on what the future outcomes for the borough need to be and how you can maximise these outcomes with the reduced resources that will be available to both councils. 	<ul style="list-style-type: none"> • We review your arrangements for setting and monitoring your savings plans and assess whether they are realistic and feasible. • We review whether you have appropriate financial management arrangements and plans in place to tackle financial resilience in the longer term.
<p>Welfare Reform</p>	<ul style="list-style-type: none"> • Welfare Reform – changes to housing benefit and welfare reform continue to increase the rate of homelessness and demand for social housing. Changes include Welfare Benefit cap, under-occupancy adjustment (bedroom limit), Universal Credit and Direct Payments 	<ul style="list-style-type: none"> • Our 2014 Welfare report draws on our experience and that of our clients, over the past year, in order to provide insight into the impact of welfare reform and will be the first in a series of updates that will contribute to understanding of these issues within the sector and provide a platform for sharing experience and good practice.

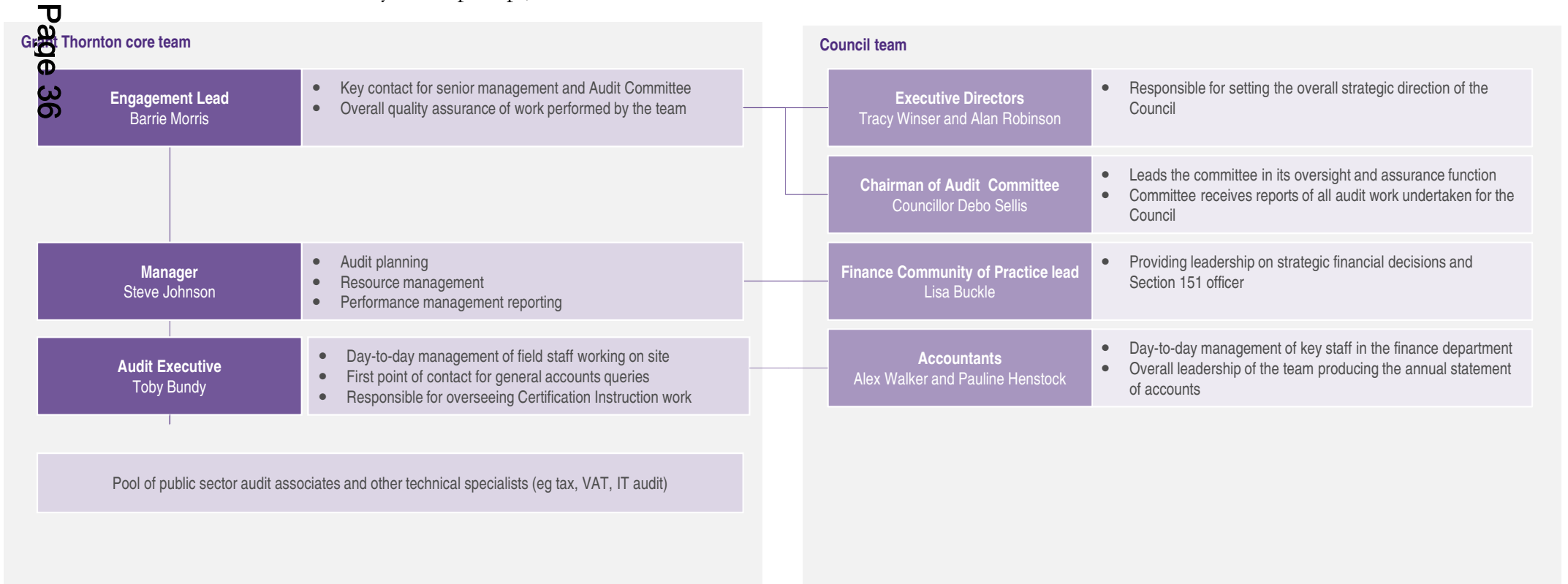
Your audit team will be happy to further discuss these and other challenges with you, and will involve relevant specialists where this is of value to you.

Your client service team

We understand what you expect from us: an approachable, proactive, locally based and highly skilled team with access to a national network of specialists and expertise as required.

The existing team will continue to:

- understand you and your priorities, and provide innovative and constructive advice
- challenge you where necessary to support your continued improvement
- be readily accessible and responsive to your needs but independent and challenging to deliver a rigorous audit
- be connected into a Local Government network
- communicate relevant information to you in a prompt, clear and concise manner



Our fees

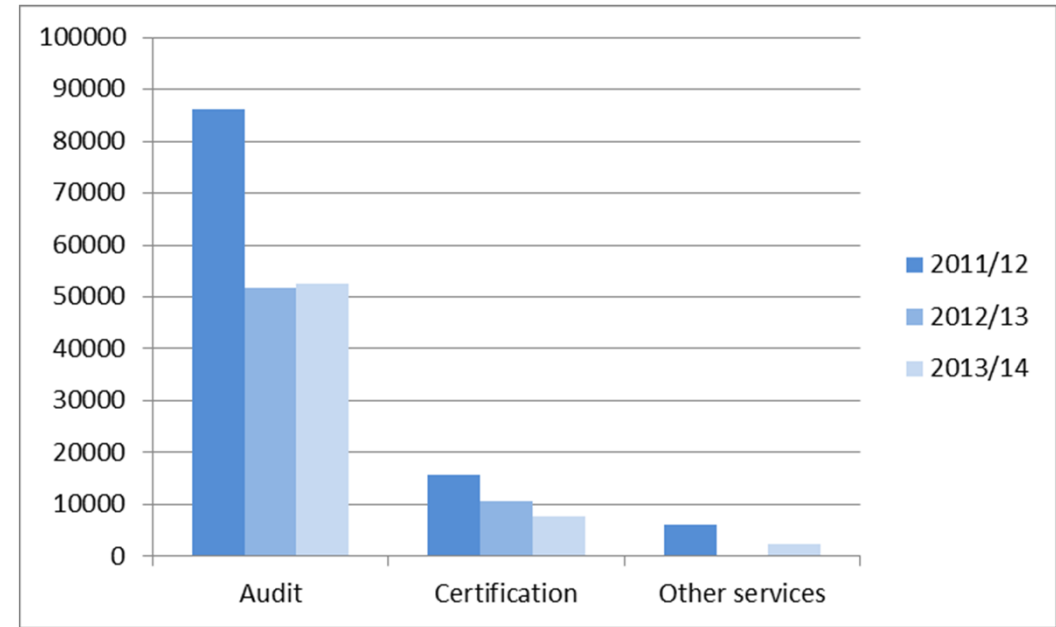
Our fee proposal provides you with transparency and value for money.

Our fees over the past two years and for the current year are set out in the chart to the right. These fees are set by the Audit Commission.

We are committed to openness and transparency in our fee with you – now and in the future. We know that you want an external audit that continues to offer a transparent fee structure which represents best value for money.

To deliver against your needs our fee includes:

- discounted rates – our position as the largest auditors to local government allows us to offer a discount on our usual rates
- no hidden costs – the fee we propose is the fee we will charge (plus VAT)
- investment in our relationship – the value in the core audit and the additional added value inputs we describe in this document are all included in the fee
- certainty over fee levels year on year – we hold the fee for the duration of the contract, absorbing fee inflation through audit efficiencies
- specialist, qualified staff - 100% of the time spent on the audit will be from qualified or part qualified staff, with over 60% from fully qualified staff, all specialists in working with local government
- expenses are included – saving you the 5%-10% that may typically arise on a contract
- no assumption of additional fee income – our external audit fee includes no assumption around you commissioning additional paid for services from us.





© 2014 Grant Thornton UK LLP. All rights reserved.

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

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

grant-thornton.co.uk

The Annual Audit Letter for West Devon Borough Council

Year ended 31 March 2014

21 October 2014

Page 39

Barrie Morris

Engagement Lead

T 0117 305 7708

E barrie.morris@uk.gt.com

Steve Johnson

Audit Manager

T 07880 456 134

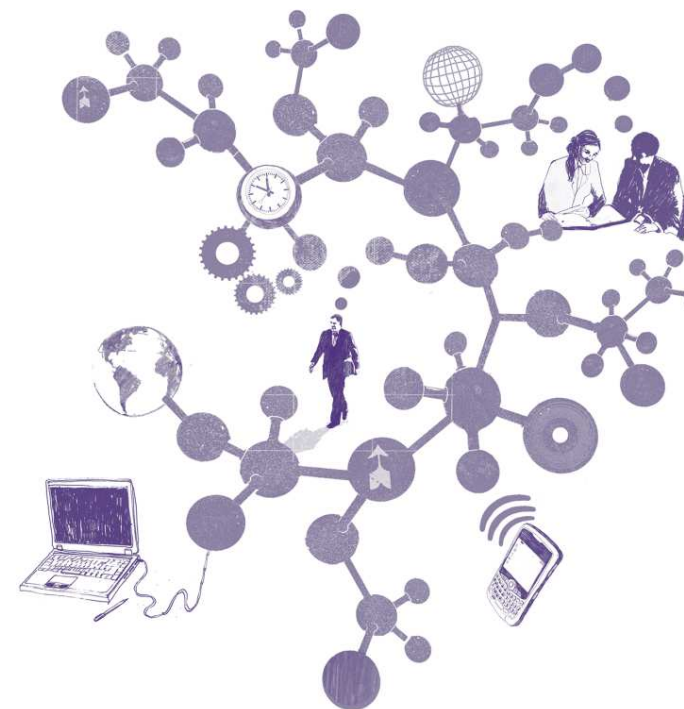
E steve.p.johnson@uk.gt.com

Toby Bundy

Executive

T 0117 305 7836

E toby.bundy@uk.gt.com



Agenda Item 2c

Contents

Section

Page

1. Key messages

3

Appendices

A Key issues and recommendations

B Summary of reports and audit fees

Page 40

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at West Devon Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued 15 April 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<p>Financial statements audit (including audit opinion)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 41</p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 23 September 2014 to the Audit Committee. There were two adjusted errors identified as a result of the audit:</p> <ul style="list-style-type: none"> • A presentation error affecting the Council's reported Deficit on provision of Services. The draft financial statements recorded a Deficit on Provision of Services of £539k. • 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. <p>The associated adjusting entries did not result in a change to the Council's reported reserves at the year end. There were no unadjusted errors.</p> <p>We issued an unqualified qualified opinion on the Council's 2013/14 financial statements on 23 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2013/14 on 23 September 2014.</p> <p>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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

Key messages

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
Certification of grant claims and returns	We are required to certify one certification return for the Council, the Housing Benefit and Council Tax Benefit subsidy for 2013/14. At the time of writing this work is ongoing and we expect to report to the Department of Works and Pensions by the 30 November 2014 deadline.
Audit fee	Our fee for 2013/14 was £52,528, excluding VAT, which is an increase of £900 over our planned fee for the year. There is no longer a certification requirement in respect of business rates, which resulted in a need for additional audit work on material business rates balances and the disclosures in the financial statements. The Audit Commission 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 audit work required on business rates.

Page 42

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>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>Recommendation: 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>	Medium	In the short term a robust contingency plan has been put in place, to ensure that, 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 the payroll.

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee *	51,628	52,528
Grant certification fee **	7,787	6,600
Total fees	59,415	59,128

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.

** This certification fee was revised by the Audit Commission as certification of council tax benefit is no longer required as part of the Housing Benefit Subsidy scheme.

Reports issued

Report	Date issued
Audit Plan	7 April 2014
Audit Findings Report	15 September 2014
Certification report	Planned December 2014
VfM – Financial Resilience Report	Planned November 2014
Annual Audit Letter	21 October 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

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

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

grant-thornton.co.uk

This page is intentionally left blank

West Devon Borough Council Audit Committee Update

Year ended 31 March 2014

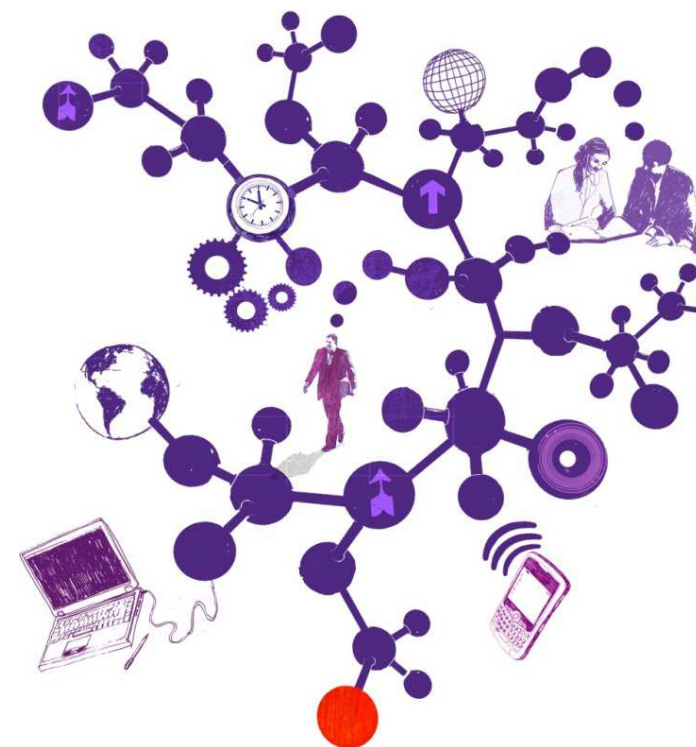
25 November 2014

Page 47

Barrie Morris
Engagement Lead
T 0117 305 7708
E barrie.morris@uk.gt.com

Steve Johnson
Audit Manager
T 07880 456 134
E steve.p.johnson@uk.gt.com

Toby Bundy
Executive
T 0117 305 7836
E toby.bundy@uk.gt.com



Agenda Item 2d

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
Introduction	4
Progress at 7 November 2014	5
Emerging issues and developments	7

Page 49

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Barrie Morris	Engagement Lead	T 0117 305 7708	barrie.morris@uk.gt.com
Steve Johnson	Audit Manager	M 07880 456134	steve.p.johnson@uk.gt.com

Position at 7 November 2014

Work	Planned date	Complete	Comments
<p>2014/15 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014/15 financial statements.</p>	24 February 2015	Not due	Initial planning work will be undertaken to enable the audit plan to be presented at the February 2015 Audit Committee.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February/March 2015	Not due	Our initial review of the Council's controls and our early substantive testing will be undertaken in February/March 2015. This work will be managed in tandem with our work for South Hams District Council. Minimising the disruption to the council's finance team.
<p>2014/15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July 2015	Not due	The audit of the 2014/15 financial statements will be undertaken in July and August 2015 and reported to the September Audit Committee to meet the 30 September 2015 deadline.

Position at 7 November 2014 (continued)

Work	Planned date	Complete	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises a review of whether the Council has:</p> <ul style="list-style-type: none"> • 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. • 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. 	February 2015 to September 2015	Not due	<p>An interim risk assessment will be made as part of the Audit planning in February 2015.</p> <p>The detailed work will continue through to September 2015, when we are required to give our VfM conclusion.</p>
<p>Other areas of work</p> <p>Certify the Council's WGA accounts</p> <p>Grant claims and certification.</p> <p>We anticipate that the only claim that will require certification for 2013/14 will be the Housing benefit and council tax subsidy.</p>	<p>September 2015</p> <p>June 2015 November 2015</p>	<p>Not due</p> <p>Not due</p>	<p>Work will commence in September 2015</p> <p>Work will commence in June 2015 and be completed in November 2015</p>

Emerging issues and developments

Code changes – have your say

Accounting and audit issues

At the end of July, CIPFA/LASAAC released the [2015/16 Code of Practice on Local Authority Accounting in the United Kingdom](#) (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (ie levies imposed by governments)
- Changes to UK GAAP particularly relating to Heritage Assets
- other minor and drafting amendments.

The consultation closed on Friday 10 October 2014. The final version of the updated code will be issued shortly.

CIPFA/LASAAC have also launched a second stage consultation on [simplifying and streamlining the presentation of local authority financial statements](#). This will be issued before the preparation of the 2014/15 financial statements

Emerging issues and developments

CIPFA LAAP updates

Accounting and audit issues

CIPFA have issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Issue for consideration

Has your Head of Finance and audit reviewed the guidance and assessed the potential impact for your authority?

Management comment

The Council will assess the impact of the 2015/16 Code of Practice on Local Authority Accounting as part of its standard timetable for Accounts preparation. The Council will also attend the various seminars on Final Accounts preparation which are run by Grant Thornton and FAN (Finance Advisory Network).

The Council undertook a major exercise on streamlining its Accounts for 2013/14 and any further streamlining from the CIPFA publication will be made.

LAAP Bulletin 99 - Local Authority Reserves and Balances - The LAAP Bulletin maintains that the many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. The Chief Finance Officer (CFO) may choose to express advice on the level of balances in cash and or as a percentage of budget (to aid understanding). The level of Reserves is reported on as part of the Budget reports to the Resources Committee and Council.

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' is available at: http://www.grant-thornton.co.uk/Global/Publication_pdf/Where-growth-happens-the-high-growth-index-of-places.pdf

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEAs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assesses the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

New routes to housing development

Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Copies of our good practice paper are available from your engagement lead or audit manager.

Emerging issues and developments

Anti - fraud and corruption update

Grant Thornton

Key current issues include:

Single Fraud Investigation Service (SFIS) - The SFIS will bring together all investigative capacity in relation to benefits and tax credits under the control of the Department of Work and Pensions. However a number of local authorities have expressed concern that such a transfer will cause them to lose the capacity to readily investigate other issues such as employee fraud and corruption allegations.

Corruption risk - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that Audit Committees were unable to fulfil the function of reducing risks in many authorities.

Non-benefits fraud - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London boroughs, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

Our Forensic Investigation Services provide a range of services to local authorities including fraud prevention and detection. If you are interested in a further discussion on these areas please contact your audit manager.

Emerging issues and developments

Right to report

Page 58

Local government guidance

The Local Government Minister signed a signed a Parliamentary order on 6 August 2014 allowing the press and public to film and digitally report from all public meetings of local government bodies. The new rules will apply to all public meetings, including town and parish councils and fire and rescue authorities. The Local Government Secretary, Eric Pickles, said:

"Half a century ago, Margaret Thatcher championed a new law to allow the press to make written reports of council meetings. We have updated her analogue law for a digital age... This will change the way people see local government, and allow them to view close up the good work that councillors do"

Issue for consideration

- Have members considered the implications of the Parliamentary order for conducting Council meetings and facilitating public and media access thereto?

Management comment

A report from the Democratic Services Manager was considered by Council on 7 October 2014. This work is being led by the Monitoring Officer and the Head of Corporate Services.

Auditing Parish Councils

Local government guidance

On 17 July 2014 the Audit Commission wrote to the Department for Communities and Local Government (DCLG) to express its concerns about the complexity of the government's new arrangements for parish council audits. Responding to DCLG's consultation on local audit regulations, the Commission suggests they will place a much greater burden on parish councils and their clerks than the government intends.

Currently all circa 10,000 parish Councillors have an Audit Commission appointed auditor. Post Audit Commission closure, scheduled for March 2015, new arrangements are due to come into place from 2017. Under the new arrangements the default option for all parishes will be to appoint their own auditors, with fees set by the market, although:

- auditors at parishes below a certain size, and subject to other prescribed conditions, will not carry out work unless members of the public ask questions or make objections – instead parishes in this category will have to publish specified information on their own website or the website of their district council;
- if a sector led body comes forward, and is accepted by the government, parishes can opt for this body to appoint their auditors for them.

The Audit Commission's Chairman, Jeremy Newman said that

- “we need to find a way to overcome some fundamental practical problems about how smaller local authorities, such as parish councils, should be held to account;
- the government wants high quality and cost-effective assurance that promotes transparency. It is trying to reduce the burden on authorities, but its proposals will do the opposite. The government needs to either keep the current assurance arrangements in place, or accept that the small spending levels of these bodies, coupled with their closeness to their communities, means that external audit is disproportionate.”

Emerging issues and developments

Managing council property assets

Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."

Issue for consideration

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?

Management comment

On 10 December 2013 the Resources Committee received a report from the estates manager on the Strategic Asset Review (SAR). An update on the SAR will be reported to the Resources Committee in December as part of the Capital Programme Monitoring report.

Emerging issues and developments

The National Fraud Initiative

Local government guidance

On 12 June 2014 the Audit Commission released its national report, [The National Fraud Initiative \(NFI\): National Report \(June 2014\)](#) highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .

Issue for consideration

- Are members satisfied that the Council's support for the NFI's data matching exercise is adequate and that local data matches are being properly investigated to identify potentially fraudulent activity?

Management comment

It is proposed that this is a separate item on the Audit Committee at its meeting on 24 February 2015 so that Members can receive a report on the detail of the data matching exercise.



© 2014 Grant Thornton UK LLP. All rights reserved.

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

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

grant-thornton.co.uk

Agenda Item 3

At a Meeting of the **AUDIT COMMITTEE** held at the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **25th** day of **NOVEMBER 2014** at **11.00 am**.

Present:
Cllr D K A Sellis – Chairman
Cllr J B Moody – Vice-Chairman
Cllr T Hill
Cllr M Morse

Substitute: Cllr J Sheldon

Finance Community of Practice Lead
Finance Business Partner (AW)
Accountant (DB)
Committee & Ombudsman Link Officer

In attendance: Mr S Johnson – Grant Thornton Audit Manager

AC 23 APOLOGY FOR ABSENCE

An apology for absence was received from Cllr K Ball (Substitute Cllr J Sheldon).

***AC 24 DECLARATIONS OF INTEREST**

No declarations of interest were made.

***AC 25 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 23rd September 2014, were confirmed and signed by the Chairman as a correct record.

AC 26 MID YEAR PRUDENTIAL INDICATOR AND TREASURY MANAGEMENT MONITORING REPORT 2014-2015

The Finance Community of Practice Lead presented a report (page 6 to the Agenda) highlighting the key changes to the Council's capital activity (the prudential indicators), the economic outlook and the treasury management activity (borrowing and investment) for the first six months of the current financial year.

Up to 30th September 2014 (mid-year point) the Council had outperformed the industry benchmark of 0.36% on its investment activity by achieving a 0.45% return on its investments. The falling interest rates had impacted considerable on the potential for the Council to derive reasonable income from its investment portfolio. In the seven year period from 2007/2008 to present the Council's investment income had reduced by £692,070 to just £27,930 at the 31st March 2014.

The Treasury Management Strategy Statement for 2014/2015, approved by Council, outlined Council's investment priorities as being (i) Security of Capital; (ii) Liquidity; and, (iii) Return (yield), and there were no proposals to change these priorities at this time.

Three appendices were presented with the report with Appendix A being the Counterparty List (page 13 to the Agenda), Appendix B being the Treasury Indicators (page 14 to the Agenda), and Appendix C

showing Benchmarking of Internally Managed Funds (page 18 to the Agenda),

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

- (i) the report, the treasury activity and the prudential indicators all be noted and approved; and,
- (ii) Council notes the reduction in investment income and the consequence that this has on the Council's budget.

***AC 27 VALUE STATEMENT NOVEMBER 2014**

Grant Thornton (external auditors) presented their report (page 19 to the Agenda) on continuing to deliver values to West Devon Borough Council. Grant Thornton had provided expertise in supporting the Council through three key areas of supporting corporate governance, focussing on financial resilience and through raising awareness of welfare reform and alternative delivery models in local government. The Council had also benefitted from Grant Thornton's extensive national and local expertise.

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

***AC 28 THE ANNUAL AUDIT LETTER FOR WEST DEVON BOROUGH COUNCIL**

Grant Thornton presented the Annual Audit Letter for the Council (page 33 to the Agenda). The Annual Audit Letter was intended to communicate key messages to both the Council and external stakeholders, including members of the public. The annual audit had been carried out in accordance with prescribed requirements of the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

In respect of the Council's financial statements for 2013/2014, Grant Thornton had issued an unqualified opinion together with an unqualified Value for Money conclusion. The consolidation pack which the Council had prepared to support the production of the Whole of Government Accounts was consistent with the audited financial accounts and Grant Thornton expected, at this stage, to report the Housing Benefit and Council Tax Benefit subsidy for 2013/2014 return to the Department of Works and Pensions by the 30th November 2014 deadline. A report on the certification of grant claims and returns would be presented at the Committee's next meeting.

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

***AC 29 WEST DEVON BOROUGH COUNCIL AUDIT COMMITTEE UPDATE**

Grant Thornton presented a report (page 40 to the Agenda) which detailed the timetable for undertaking and completing the work for the external audit 2014/2015. The report further advised the Committee that CIPFA/LASAAC had issued a public consultation at the end of July 2014, with a closing date of 10th October 2014, on the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom and a

second stage consultation on simplifying and streamlining the presentation of local authority financial statements.

The report also made reference to an update published by the Local Authority Accounting Panel providing guidance on the establishment and maintenance of local authority reserves and balances.

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

(The Meeting terminated at 12.05 pm.)

Dated this 24th February 2015

Chairman

This page is intentionally left blank