



External audit report 2016/17

West Devon Borough Council

—

19 September 2017



Contents

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Summary for Audit Committee

- Financial statements** This document summarises the key findings in relation to our 2016-17 external audit at West Devon Borough Council ('the Authority'). We previously reported on our interim work in our WDBC 2016-17 *Interim Letter* in June 2017.
- This report focusses on our on-site work which was completed in March and July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our controls assessment findings from interim and final audit are summarised on pages 4 – 7, with the final audit work on pages 8 - 17.
- Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements on 19 September 2017 which is over a week before the statutory deadline of 30 September 2017.**
- We have not identified any audit adjustments.
- Based on our work, we have raised one recommendation regarding non-significant control deficiencies identified in our interim and final audits. Details on our recommendation can be found in Appendix One.
- We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter in line with statutory deadlines.
- Value for Money** We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- We therefore anticipate issuing an unqualified value for money opinion.**
- See further details on pages 18-23.
- Acknowledgements** We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.
- We ask the Audit Committee to note this report.**

Section one

Controls assessment



This section summarises the key findings arising from our work completed during our interim and final audit testing for the 2016/17 Financial Statements.

This covered:

- review of the Authority's general control environment, including gaining an understanding of the Authority's IT systems and testing general IT controls;
- testing of certain controls over the Authority's key financial systems; and
- review of relevant internal audit work which we sought to rely upon.



Organisational Control Environment

Your organisational control environment is effective overall.

Work performed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority’s overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing over all of these controls.

Key Findings

We consider that your organisational controls are generally effective overall.

We obtain an understanding of the Authority’s overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Aspect	Our Assessment	
	2016/17	2015/16
Organisational controls	3	3
Management’s philosophy and operating style	3	3
Culture of honesty and ethical behaviour	3	3
Oversight by those charged with governance	3	3
Risk assessment process	3	3
Communications	3	3
Monitoring of controls	3	3
IT control environment	3	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Controls over Key Financial Systems

The controls over the key financial systems are generally sound. We have raised one recommendation during the year. However, the control weakness identified did not have a significant impact on our audit.

Work performed

We review the outcome of internal audit’s work on financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy and our audit risk assessment. Our review of internal audit work does not represent an external review against PSIAS, as required at least every five years.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with the internal auditor’s opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key Findings

Based on our work, and the work of your internal auditors, in relation to those controls upon which we will place reliance as part of our audit, the key financial systems are generally sound. However, we were unable to rely on some controls throughout the year. The following ratings are based on the design and implementation of the controls in operation at the Council. The deficiencies include:

- Monthly benefit payment checks were not performed in November 2016 due to staff absence and other reconciliations did not include evidence of reconciliation and reported discrepancies;
- Housing benefits weekly reconciliations were not being performed from 31 August 2016 through March 2017;
- Cash and refund reconciliations were not being performed in a timely manner; and
- Trade payables monthly reconciliations were not completed every month.

We have identified one recommendation which we have discussed with you and your team. We have identified mitigating controls within the control environment to confirm that the control weakness did not have a significant impact on our audit.

We have performed testing over the year end reconciliations and note that all of them have been completed accurately and are evidenced as reviewed as part of the year end process.

Aspect	Our Assessment	
	2016/17	2015/16
Payroll costs	3	3
Cash and cash equivalents	3	3
Housing Benefits	2	2
Housing Revenue Account	3	3
Council Tax and NNDR	3	3
Pensions	3	3
Purchases	2	3
Journals	3	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Section Two

Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 19 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported an underspend of £70,000 in the General Fund during the year. This has resulted from a movement in surplus of £1.4m (post-audit) on Provision of Services offset by £1.3m of transfers between Earmarked Reserves.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work.

Significant audit risks	Work performed
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1. Significant changes in the pension liability due to LGPS Triennial Valuation

Why is this a risk?

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The Authority's share of pension assets and liabilities for each admitted body was determined in detail, and a large volume of data was provided to the actuary to support this triennial valuation.

There was a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data was provided to the actuary by Devon County Council, the administrator of the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues. We have also substantively agreed the total figures submitted to the actuary to the general ledger with no issues noted. We critically assessed the assumptions used in the pension valuation at 31 March 2017 to determine whether they were appropriate.

We did note that two of the assumptions used by Barnet Waddington were outside the acceptable range in the annual PWC report on Local Government Pension Schemes, which is commissioned by the National Audit Office. We engaged our in-house actuaries to assess the impact of the differences, who noted an off-setting effect on the pension liability. As such no accounting adjustments were raised in respect to the assumptions used.

Management may wish to consider discussing with other employers in the Devon County Council scheme whether, in future years, assurance should be sought from the actuaries engaged to prepare the valuation reports over the methodology to be used. This may avoid further challenge on these assumptions going forward. See page 13 for our assessment on the assumptions used by the actuary in the IAS19 report.

2. Allocation of Shared Costs

Why is this a risk?

The Authority operates on a shared service basis with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each council individually and then an exercise is undertaken in order to ensure that these are shared on an appropriate and consistent basis. It is essential that the Authority recognises its full costs and to prevent cross subsidy between the two councils. In order to operate effectively, the allocation of costs must be undertaken on an appropriate basis which reflects the nature of the underlying activities and the way in which resources are consumed.

Our work to address this risk

We have reviewed the basis of allocation between South Hams and West Devon and have found this to be appropriate and reflect the nature of the activities involved. The allocation basis is consistent from the prior year and was approved by the Audit Committee on 20 June 2017.

We have performed an analytical review of the staff recharges for 2016/17 as this expenditure results in over 90% of shared costs between the councils. No issues were identified as a result of the above work.

We have also reviewed the shared services (non-salaries) and the costs have been reasonably apportioned between the two councils. No issues were identified.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.



Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. Our work on the allocation of shared costs, reported on page 10, also contributes to this assessment.

There are no matters arising from this work that we need to bring to your attention.

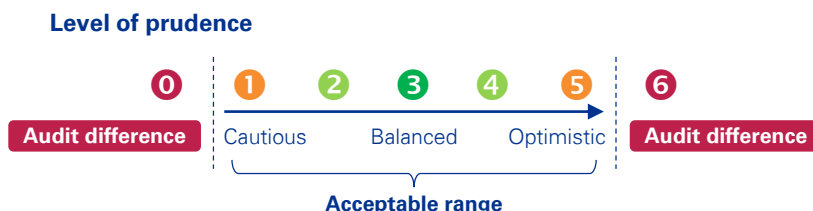
Other areas of audit focus

We identified two areas of audit focus. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
<p>1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS</p>	<p>Background</p> <p>CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul style="list-style-type: none"> — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. <p>The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p>What we have done</p> <p>We have obtained an understanding of the methodology used to prepare the revised statements and the prior period restatement. We have also agreed figures disclosed to the Authority’s general ledger and found no issues to note.</p> <p>We have reviewed the draft statement of accounts against the CIPFA disclosure checklist and made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.</p>
<p>2. Change in accounting policy relating to accruals de minimis threshold</p>	<p>Background</p> <p>During 2015/16 the Authority amended its policy in relation to the recognition of revenue accruals to increase the de minimis threshold from £1,000 to £2,500. A further revision was planned for 2016/17 which saw the threshold increase to £5,000. These changes have been made as part of the overall review of closedown arrangements by the Finance Community of Practice in order to identify the changes that are needed to support faster close of the accounts given the change to statutory deadlines for 2017/18 onwards.</p> <p>What we have done</p> <p>We have reviewed the change in accruals levels between 2015/16 and 2016/17 and confirm that the policy change has been accounted for appropriately. The change in accrual levels due to the change of threshold does not materially impact the financial statements.</p> <p>No issues were identified as a result of the above work.</p>

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions	3	3	The Authority's provision have decreased significantly due to a large number of appeals being settled during the year. We identified no issues in relation to the appropriateness of this provision.
Revenue accruals	3	3	The Authority has revised its approach to calculating revenue accruals during the year and has increased its de minimis threshold from £2,500 to £5,000 in 2016/17. We have compared the new threshold to that applied at other authorities and have confirmed that it is in line with the general approach adopted. The value of the transactions between the two ranges compared to prior year is immaterial. No issues identified from our work performed.
PPE: Asset lives/valuation	3	3	<p>The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has utilised internal valuation expert to provide valuation estimates.</p> <p>We have reviewed the methodology and process instructions for the revaluation performed during the year. A full valuation is performed on a rolling basis to cover 20% of assets per annum over a five-year cycle. Assets not included in the full valuation are also assessed in order to ensure that carrying amounts are not materially different to current values at the year-end.</p> <p>Based on the last three years of revaluations, 92% of the asset value have been valued accordingly (34% were revalued during 2016/17), therefore we have gained assurance that the assets not revalued during the year have not materiality changed as at 31 March 2017. We have critically assured the judgements involved with no issues noted.</p> <p>We recommend that documentation for the revaluation process be improved for the coming years and that specific quantification for methodology be used (ie reference to published industry standard indices for asset types) for those not valued in year.</p>

Judgements (cont.)

Subjective areas	2016/17	2015/16	Commentary
Pensions	3	3	<p>We have reviewed the actuarial assumptions for the current financial year and noted the following:</p> <ul style="list-style-type: none">– The discount rate used is considered less prudent than the KPMG expected assumption but consistent with the approach taken last year and within the acceptable tolerance range. This less prudent approach therefore places a lower value on liabilities. Based on the report, every 0.1% outside of the assumption the discount rate is, the liability will be impacted by 2%, which is materiality significant for the Authority.– The Pension increases (CPI) assumption of 2.7% is a fixed margin below RPI of 0.9% which is the lowest range in those reviewed by PWC. This was considered more prudent than our expected assumption and the methodology is reasonable and consistent with prior year.– The salary increase and mortality assumptions were both considered consistent and reasonable. <p>Overall, the net discount rate (i.e. the discount rate less CPI inflation) is within our tolerable range despite both individually being towards the extremes of our acceptable ranges. Therefore we consider the assumptions in combination to be reasonable.</p>

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 19 September 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level for this year's audit was set at £0.6 million (see Appendix Two). Audit differences below £30,000 are not considered significant.

We did not identify any material misstatements. We identified a limited number of issues that have been adjusted by management but they do not have a material effect on the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2017.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. It is particularly noteworthy that thought and effort has been given to including a range of non-financial information.

Movements on the general fund 2016/17

£m	Pre-audit	Post-audit
Surplus/(Deficit) on the provision of services	1.432	1.432
Adjustments between accounting basis and funding basis under Regulations	(0.025)	(0.025)
Transfers (to)/from earmarked reserves	(1.337)	(1.337)
Increase in General Fund	0.070	0.070

Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit
Property, plant and equipment	19.311	19.311
Other long term assets	0.215	0.215
Current assets	12.182	12.182
Current liabilities	(5.597)	(5.597)
Long term liabilities	(29.020)	(29.020)
Net worth	(2.909)	(2.909)
General Fund	1.125	1.125
Earmarked reserve	3.732	3.732
Other usable reserves	0.625	0.625
Unusable reserves	(8.391)	(8.391)
Total reserves	(2.909)	(2.909)

Section two: financial statements

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.



Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices appropriate for this year's audit. They have finalised the accounts in a shorter timescale to place themselves in a good position to meet the new 2017/18 deadline. The Finance team should be commended for producing accounts that did not require any audit adjustments.

The team should continue to liaise with KPMG as concerns arise or where there are areas requiring key judgements.

Completeness of draft accounts

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline.

We note that the Authority will need to further advance the accounts production timetable for next year's earlier deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January and June 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We followed these up with meetings with Management to discuss specific requirements of the document request list.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that the Finance team have worked hard to close down the accounts in a faster timescale in preparation for the earlier statutory deadlines next year, and in doing so, this has resulted in good-quality accounts and working papers with clear audit trails which supported the audit process well.

Response to audit queries

We expect that where possible, audit enquires have a turnaround time of two working days. This was achieved in most areas, except for areas where staff who prepared the working papers were not part of the finance team or were not available during the audit.

As a result of this, all our audit work is expected to be completed within the timescales agreed. At current, the following areas are ongoing:

- Updating our assessment of subsequent events;
- Receipt of the management representation letter; and
- Receipt and review of the final version of the financial statements.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of West Devon Borough Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and West Devon Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix Three in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Lisa Buckle for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.



Section three

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



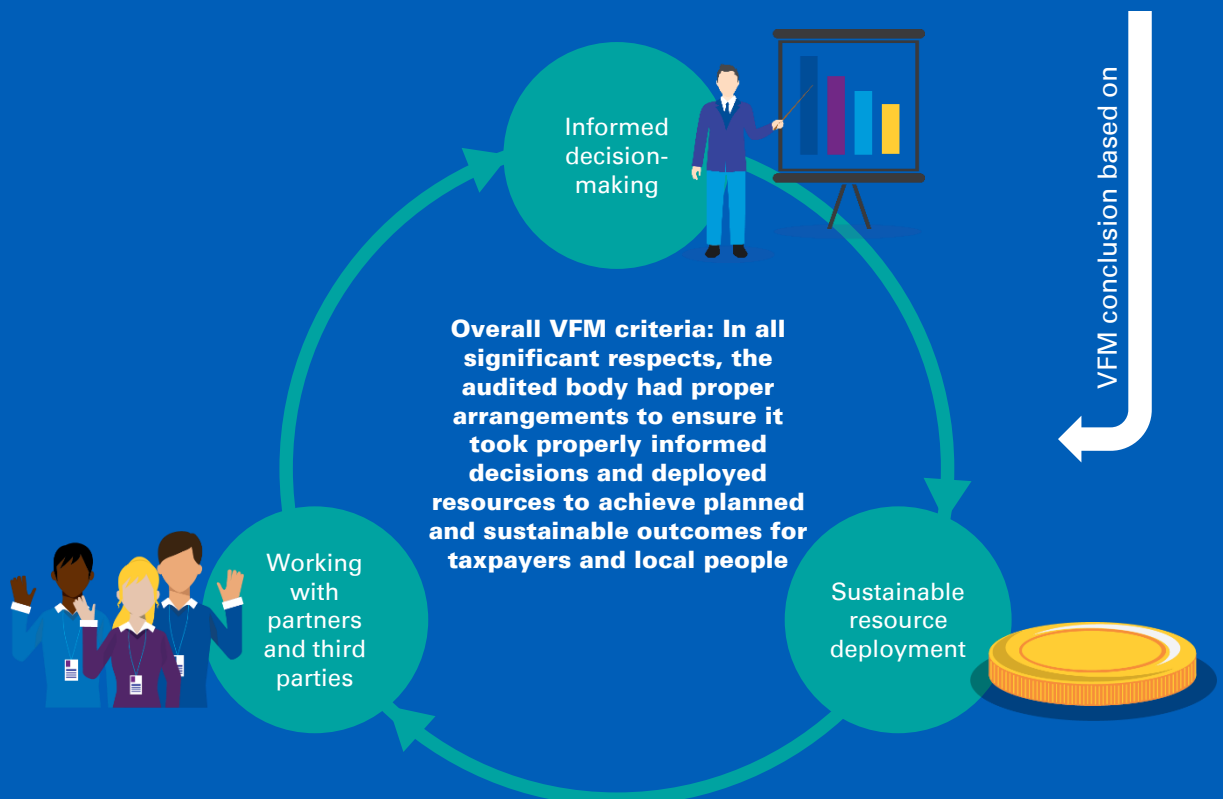
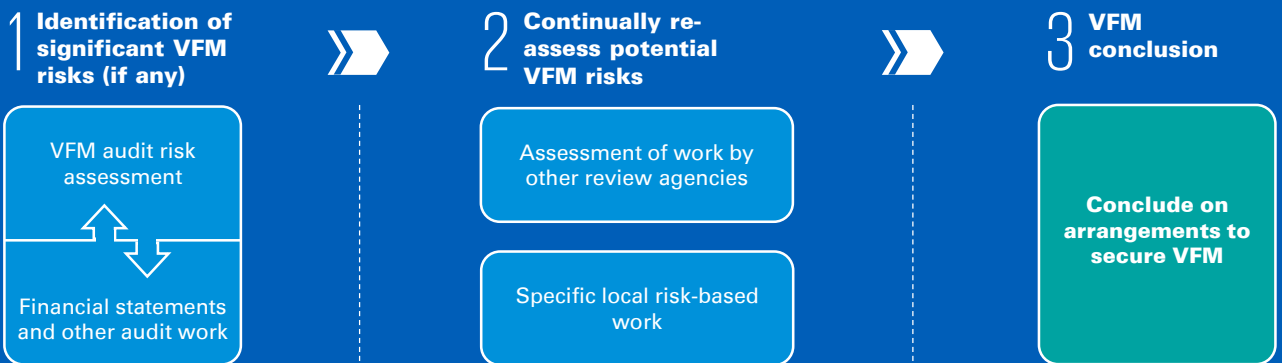
VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



VFM conclusion - headline results

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Delivery of Savings Plans	✓	✓	✓
2. T18 Transformation programme	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

In line with the risk-based approach set out on the previous page, and in our External Audit Plan we have :

- assessed the Authority’s key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Performed testing over the identified risk areas during our final audit visit.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Delivery of Savings Plans	<p data-bbox="446 578 651 607">Why is this a risk?</p> <p data-bbox="446 627 1293 706">At the time of our planning report, the Authority has identified the need to make savings of £0.9m in 2016/17. The current forecast shows that the Authority will deliver an overspend of approximately £35,000 at year end.</p> <p data-bbox="446 727 1352 897">The Authority's budget for 2017/18 includes savings of £0.6m. Subsequent years shows further funding gaps however, resulting in a total net budget gap of £1.1m for the period 2018/19 to 2021/22. Further significant savings will be required in 2018/19 onwards to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience.</p> <p data-bbox="446 917 698 946">Summary of our work</p> <p data-bbox="446 967 1305 1046">Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the Authority's financial pressures.</p> <p data-bbox="446 1067 1339 1174">Post-audit, the Authority is reporting an overall underspend of £0.07m in the General Fund Balance and an transfer of £1.3m in the Earmarked Reserves balance for 2016/17, with the overall balance of £4.8 million as of 31 March 2017. This is made up of £1.1 million of General Fund Reserves and £3.7 million of Earmarked reserves.</p> <p data-bbox="446 1195 1352 1359">We have performed a budget review for 2016/17 compared to actual results for the year and note that the budgeted figures for the period do not differ significantly from the actual figures in the Statement of Accounts and as such, the budgeting process can be seen as reliable and prudent. The spending, savings and service delivery continues to be monitored through the quarterly budget monitoring reports within the Committee and board meetings.</p>

Significant VFM risks	Work performed
2. T18 Transformation programme	<p data-bbox="445 364 651 389">Why is this a risk?</p> <p data-bbox="445 410 1349 634">As part of its response to the central government funding reductions, and in order to improve the efficiency of its operations, the Authority initiated a major transformation programme (“T18”), working closely with South Hams District Council. This programme resulted in significant changes to the way in which services are delivered and back office functions undertaken. As part of the transformation programme, all staff roles and responsibilities have been redefined and a more unified model has been developed whereby staff act as key points of contact for service users and work across services rather than operating as separate teams.</p> <p data-bbox="445 654 1349 851">The establishment of this new working model has resulted in significant one-off investment costs, both in terms of redundancy costs and those relating to the establishment of new processes and delivery structures. In addition, the allocation of temporary resources was required during 2015/16 and into 2016/17 as a result of delays in IT systems being implemented to support new delivery models. Such costs will be exceeded by the ongoing recurrent annual savings that will be achieved by way of the programme.</p> <p data-bbox="445 872 696 897">Summary of our work</p> <p data-bbox="445 917 1349 1141">The T18 transformation programme undertaken by management in the prior years continues to reduce some of the Council’s expenses and increase service delivery potential and ability, as seen in the current year underspend. The budget for the upcoming financial year indicates a budget surplus, and this combined with the reduction with expenses in the current period and with the expectation of this trend continuing, even with the reduction of government funding, the Council is well placed to deal with future challenges. The Council should continue seeking programmes and strategies that will enable long term sustainability in a continually changing sector.</p> <p data-bbox="445 1162 1349 1301">We have reviewed the quarterly budget reports for the year and we are satisfied that the Authority adequately documents the progress and challenges resulting from the T18 programme. In particular, areas which need to be addressed along with relevant solutions, whilst increasing the payback period by two months, will help to achieve sustainable resources and services in the future.</p> <p data-bbox="445 1321 1349 1601">Following the implementation of the T18 Transformation programme, the councils have continued to challenge how they should be structured and deliver services, in order to meet predicted future financial challenges. During 2016/17 this involved exploring the potential to establish a Local Authority Controlled Company (LACC) through which the majority of service delivery would be channelled. Following detailed consideration, the LACC option was ultimately not pursued, and the councils are now pursuing the possibility of a formal One Combined Council. The Council has therefore demonstrated an on-going willingness to consider radical options to secure its financial and service resilience in the future, as well as keeping these options under review and taking informed decisions.</p>

A close-up photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen is lying horizontally in the foreground, pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word "Appendices" is written in a red, serif font, centered in the upper half of the image, flanked by two vertical red lines.

Appendices

Key issues and recommendations

Our audit work on the Authority’s 2016/17 financial statements have identified one issue. We have listed the issue below with our recommendation which we have agreed with Management. We have also included Management’s response to this recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendation. We will formally follow up these recommendation next year.

Each issue and recommendation have been given a priority rating, which is explained below.



Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	-	-	-
Medium	-	-	-
Low	-	1	1
Total	-	1	1



1. Performing Monthly reconciliations

We have identified four non-significant control deficiencies during our 2016/17 audit in regards to monthly reconciliation controls over housing benefits and trade payables.

We acknowledge that there was an absence of staff responsible for performing the reconciliations however there is a monthly process checklist that provides guidance on required tasks to be completed every month. The Authority should have allocated staff to cover the key members to ensure that monthly processes are completed.

Recommendation

Ensure that sufficient closedown staff are trained to complete the monthly process checklist over the financial statement balances to ensure that adequate review is performed over the monthly financial information.

The overarching principle is that monthly reconciliations should be completed and reviewed in a timely manner throughout the year and any reconciling items be explained and cleared the following month.

Management Response

Owner

[TBC]

Deadline

[TBC]

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £0.6 million which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £30,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of West Devon Borough Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and West Devon Borough Council, and its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 4

Audit fees

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work			
Description of non-audit service	Estimated fee	Billed to date	Potential threat to auditor independence and associated safeguards in place
Housing Benefits Grants Certification	£5,340	£5,340	The certification of the Housing Benefits Subsidy return forms part of our contractual responsibilities as the Authority's appointed auditor. The nature of this audit-related services is such that we do not consider it to create any independence threats.
Total estimated fees	£5,340	£5,340	
Total estimated fees as a percentage of the external audit fees	14%		

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £39,396 plus VAT which is consistent with the prior year.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £5,340 plus VAT, see further details below.

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee set in March 2016	39,396	39,396
Subtotal	39,396	39,396
Housing benefits (BEN01) certification work		
PSAA scale fee set – planned for September 2017	5,340	5,630
Total fee for the Authority set by the PSAA	44,736	45,026

All fees are quoted exclusive of VAT.



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