



The Audit Findings for South Hams District Council

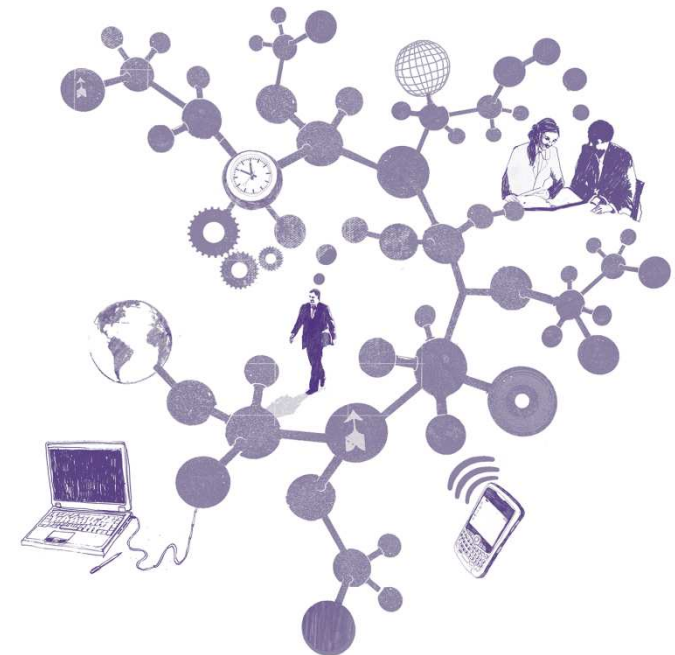
Year ended 31 March 2013

September 2013

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

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

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Section 1: Executive summary

01. Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of South Ham District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

Introduction

In the conduct of our audit we have made one change to our planned audit approach, which was originally communicated to you in our Audit Plan and presented to the Audit Committee 11 April 2013. This change relates to the risk identified in relation to valuation of property, plant and equipment.

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

- receipt of letter of assurance from the auditors of the Local Government Pension scheme;
- review of the final version of the financial statements;

- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- review of the Whole of Government Accounts.

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

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

One adjustment of £293,000 affecting the Council's net expenditure reported in the Comprehensive Income & Expenditure Statement has been made as detailed in section 2 of this report. The draft financial statements recorded net expenditure of £10,885,000; the audited financial statements show net expenditure of £11,178,000. This change relates to errors in capitalising expenditure on property, plant and equipment. We have also made a number of adjustments to improve the disclosures within the financial statements.

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

Value for money conclusion

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

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

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

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

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

Control weaknesses were identified in relation to the systems in place for capitalisation of expenditure in the Property Services Repairs and Maintenance System. As noted on page 5, this led to expenditure of £293,000 being incorrectly capitalised. Our work has not identified any further control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

The way forward

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

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Head of Finance & Audit and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 11 April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have made one change to our Audit Plan as previously communicated to you on 11 April 2013. This is in relation to the risk of valuation movements being misstated.

Audit opinion

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

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has identified one adjustment to fully recognise grants and contributions applied to capital expenditure in the year, rather than account for these on a net basis.</p> <p>No other issues in respect of revenue recognition identified.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We previously highlighted to the Audit Committee the weakness in arrangements that separate authorisation is not required for journals to be posted to the ledger system and that the S151 officer has the ability to post journal entries. No significant issues were noted from the testing of journal entries and we confirmed that no journal entries had been made by the Acting Head of Finance & Audit.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p>Revaluation movements not correct</p> <p>The Statement of Accounts recognise very significant revaluation increases on land and buildings.</p>	<ul style="list-style-type: none"> • agreement of revaluation movements to the fixed asset register and valuation statements. • review of the method and assumptions adopted by the valuer • consider the adequacy of related disclosures 	<p>Our audit work has identified a disclosure adjustment in respect of the split of revaluation increases disclosed in Note 9 in order to correctly analyse amounts between those recognised in the Revaluation Reserve and those recognised in the surplus / deficit on the provision of services. No adjustments were required to the Comprehensive Income & Expenditure Statement or the Balance Sheet.</p> <p>In addition, we recommended that the disclosures relating to the change in valuation of car parks were enhanced to provide further details of the significant valuation increases.</p>




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses and creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls relating to operating expenses and creditors undertaken a walkthrough of the key controls to assess whether those controls are designed effectively substantive testing of operating expenses and significant creditor balances review of after date payments to ensure all liabilities are identified. 	<p>Our audit work has not identified any significant issues in relation to the risk identified. However, other adjustments were made impacting on the expenditure recorded in the net cost of services. These related to property, plant and equipment additions and grants and contributions applied to capital expenditure.</p>
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls relating to employee remuneration undertaken a walkthrough of the key controls to assess whether those controls are designed effectively testing of employee remuneration expenditure including apportionment of shared costs. 	<p>Our audit work has identified one minor adjustment to the disclosure of exit packages.</p> <p>Our audit work has not identified any significant issues affecting the Comprehensive Income and Expenditure Statement.</p>
Welfare expenditure	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls relating to housing and council tax benefits undertaken a walkthrough of the key controls to assess whether those controls are designed effectively undertaken elements of the housing and council tax benefits subsidy certification to ensure the correct parameters have been applied to the software systems, movements in expenditure between years are understood and that the software suppliers' instructions have been followed in compiling the subsidy claim testing a sample of 25 benefit expenditure transactions in year to ensure entitlement correctly calculated. 	<p>Our work identified one adjustment of £1.1 million to housing expenditure and associated subsidy income. This was as a consequence of the cut off issue identified in the audit of the 2011-12 accounts.</p> <p>Our audit work has not identified any other significant issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential will flow to the Council. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential will flow to the Council. 	<ul style="list-style-type: none"> Revenue recognition policies have been reviewed and were determined to be in accordance with the requirements set out in the CIPFA Code. Disclosure requirements have been assessed in accordance with CIPFA disclosure checklist and are deemed to be appropriate. 	
Judgements and estimates	<ul style="list-style-type: none"> The Council has disclosed that the key estimates and judgements in applying accounting policies are in relation to pension liabilities only. 	<ul style="list-style-type: none"> Note 1 discusses estimation uncertainty in relation to the pensions liability but we recommended that these long-standing disclosures be enhanced to include estimates and judgements in relation to property, plant and equipment. 	
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	

Assessment

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

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account	Balance Sheet	Impact on general fund
1 Housing benefit subsidy Gross housing income and expenditure have been adjusted as a consequence of the cut off issue identified in the audit of the 2011-12 accounts.	Reduction in gross income and expenditure of £1,114,000	Nil	Nil
2 Property, plant and equipment additions £293,000 of capital expenditure has been capitalised twice leading to overstatement of property, plant and equipment additions.	Increase in maintenance costs of £293,000	Reduction in PPE balance of £293,000 and corresponding reduction in earmarked reserves	Nil
3 Grants and contributions applied Full amounts should be recognised rather than accounted for on a net basis.	Increase in gross income and expenditure of £452,000	Nil	Nil
Overall impact	Increase in net expenditure of £293,000	Reduction of £293,000	Nil

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value	Account balance	Impact on the financial statements
1 Misclassification	£1,172,000	Property, plant and equipment	Reclassification of an addition from infrastructure assets to assets under construction in respect of a scheme which became operational in May 2013.
2 Disclosure	£293,000	Property, plant and equipment	Updated disclosures in notes 9 and 33 in respect of adjustment to property, plant and equipment additions.
3 Disclosure	£263,000	Property, plant and equipment	Updated disclosures in note 9 to correctly analyse revaluation increases between those recognised in the revaluation reserve and those recognised in the surplus /deficit on provision of services. In addition, further disclosure was added to provide further details in respect of the significant valuation increases and the basis of valuation.
4 Disclosure	£7,000	External Audit Costs	Updated disclosure in note 30 to clarify the level to separately disclose the rebates received on the 2011-12 and 2012-13 audit fees, and to ensure the fees for other services correctly disclosed.
5 Disclosure	-	Grant Income	Disclosure updated in note 31 to provide details of revenue grants and contributions recognised in the net cost of services.
6 Disclosure	-	Exit packages	Updated disclosure in note 36 to correctly disclose the number of compulsory redundancies under £20,000 as four.
7 Disclosure	-	Pensions liability	Note 37 updated to separately disclose the value of the opening and closing funded and unfunded obligation.

Unadjusted misstatements


We have not identified any adjustments during the course of our audit which are not planned to be made with the final set of financial statements. If following this report, further adjustments are identified we will provide an update to the Audit Committee. The Audit Committee is required to approve management's proposed treatment of any such unadjusted items.

Internal controls


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

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

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.		<ul style="list-style-type: none"> Revenue expenditure incurred by the Property Services Repairs and Maintenance Team was calculated as the balance of amounts on the building maintenance control account that were not capitalised, this led to an understatement of costs charged as maintenance to the Comprehensive Income and Expenditure Statement as well as overstatement of capital expenditure by £293,000. 	<ul style="list-style-type: none"> The process for identifying capital expenditure from the Property Services Repairs and Maintenance systems should be reviewed to minimise the possibility of expenditure being capitalised incorrectly.

Assessment

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

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Chair of the Audit Committee and have not been made aware of any material concerns. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A number of minor disclosure and presentation adjustments have been made to the financial statements as set out on page 13.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

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

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

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

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that the Council faces significant financial challenges due to further reductions in government funding leading to a budget gap of £2.35 million over the next four year period from 2014-15 to 2017-18. However, the Council has good arrangements in place for financial planning and is able to demonstrate a sound understanding of the financial environment and associated risks. Our detailed findings, along with a small number of recommendations are set out in our separate Financial Resilience report.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and concluded that adequate arrangements are in place.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	2012-13 fees per Audit Plan	2012-13 Actual fees	2011-12 Actual fees
Council audit	£51,628	£51,628	£86,046
Grant certification	£10,250	£10,250	£15,619
Total audit fees	£61,878	£61,878	£101,665

Fees for other services

Service	Fees
VAT and Employment Tax advice*	£8,000
Review of client response to HMRC	£2,500
Total	£10,500

* Please note that we were engaged to undertake the VAT and Employment Tax advice before our formal appointment as the Council's external auditors.

Independence and ethics

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

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The process for identifying capital expenditure from the Property Services Repairs and Maintenance systems should be reviewed to minimise the possibility of expenditure being capitalised incorrectly.	High	Agreed.	Chief Accountant / Capital Accountant 31 October 2013

Appendix B: Audit opinion

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

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

Opinion on the Authority financial statements

We have audited the financial statements of South Hams District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of South Hams District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and Audit and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Hams District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

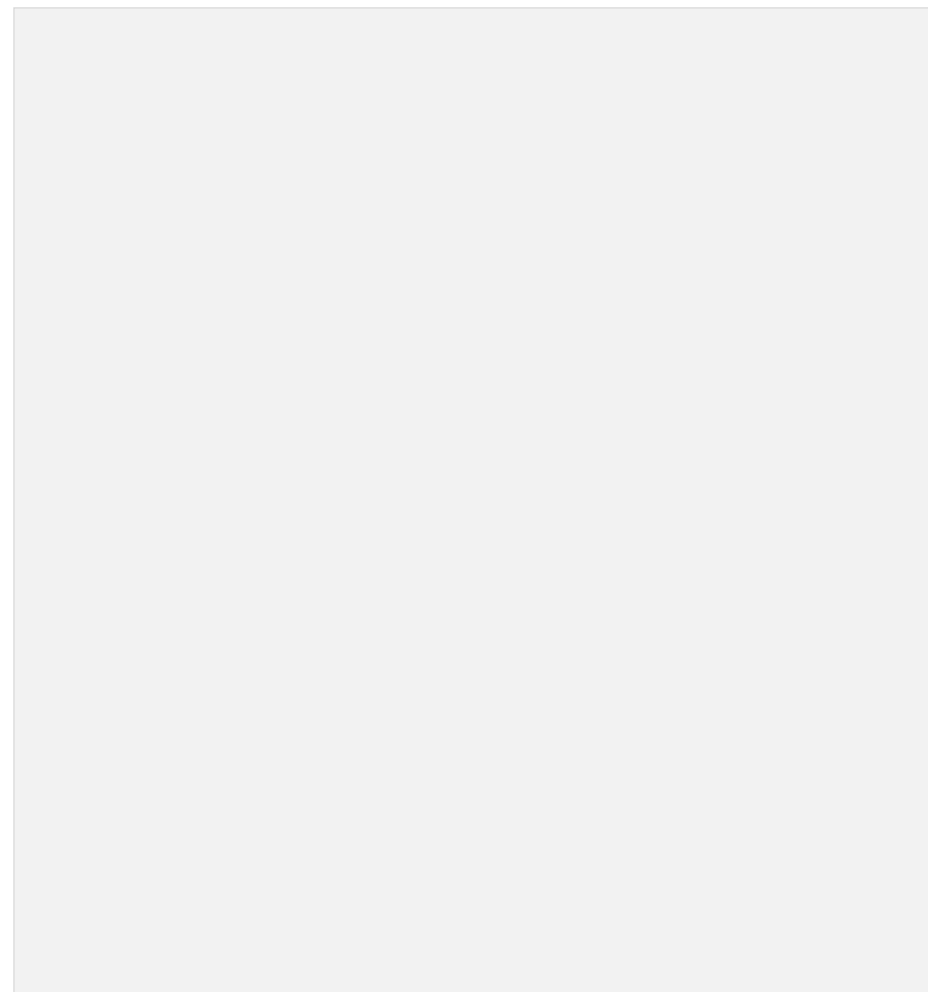
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, South Hams District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

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



Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have made one change to our Audit Plan as previously communicated to you on 11 April 2013. This is in relation to the risk of valuation movements being misstated.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated or not recorded in correct period	No	Adjustments due to incorrect capitalisation leading to overstatement of PPE additions and an increase in maintenance costs.
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	No issues were identified in relation to remuneration expenses being incorrectly calculated. A minor disclosure adjustment was made to correctly disclose the number of compulsory redundancies.
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	We did not identify any issues with the calculation of welfare benefits, however an adjustment of £1.1 million to gross housing income and expenditure has been made relating to 2011-12 cut off.
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from Council Tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Other government grants	Grant Income	None		No	Disclosure adjustment to enhance the disclosures in respect of grant income.
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Significant	Revaluation measurements not correct	Yes	Adjustments due to incorrect capitalisation leading to overstatement of PPE additions and updated disclosures to correctly analyse revaluation increases between those recognised in the revaluation reserve and those recognised in the surplus/deficit on provision of services.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Cash and cash equivalents	Bank & cash	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	Adjustments due to adjustments noted under PPE.



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