

The Annual Audit Letter for East Devon District Council

Year ended 31 March 2015

1 October 2015

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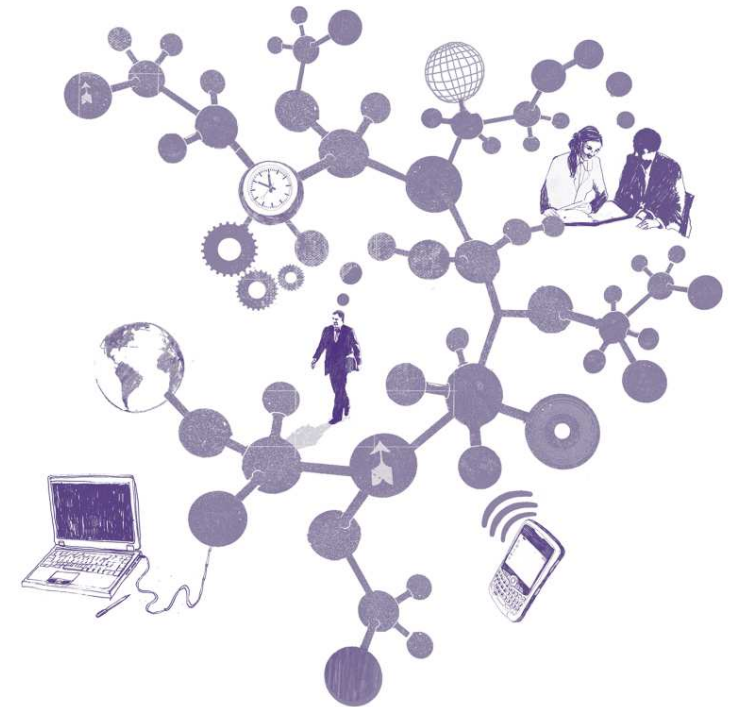
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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at East Devon District Council ('the Council') for the year ended 31 March 2015.

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 on 29 April 2015 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 and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September 2015 to the Audit and Governance Committee. The key messages reported were:

- the accounts were produced to a high standard
- all requests for additional information were dealt with promptly by the finance team
- an action plan has been agreed to with the Council based on our findings from our audit work and is attached at appendix A

We identified two adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2015 presented for audit recorded net expenditure of £13.757m. Following the agreed audit adjustments, the audited financial statements showed net expenditure of £17.641m. The changes related to:

- reversal of upward revaluation of £1.546m to assets under construction which actually related to additions which had already been accounted for; and
- reversal of upward revaluation of infrastructure assets of £2.338m in year as the Code states such assets should be carried at historical cost and not fair value.

We have worked closely with Exeter City Council, East Devon District Council and Teignbridge District Council regarding the accounting treatment of Strata Service Solutions Limited (Strata). The Councils are of the view that the Company is a joint operation and we concur with this view. The financial statements of Strata have been included within the Councils' own single entity accounts.

Key messages continued

Financial statements audit (including audit opinion) continued

Strata produced draft financial statements for the period 1 November 2014 to 31 March 2015 which the Councils used to produce their own draft accounts. Strata's External Auditors found that the draft accounts contained a significant error relating to the treatment of capital payments to Strata from each of the three Councils. This was originally treated as income in Strata's draft financial statements but in the audited Strata accounts it was revised to reflect the fact that it related to subsequent capital expenditure.

East Devon District Council funded this transaction with Strata through a specific grant and it has formed a judgement that, as the conditions of grant have been met, it should account for this wholly within the year and has not adjusted its single entity accounts based on the revised Strata accounts. This is a different approach to the two other Councils, which did not fund this transaction through such a grant. We concurred with the accounting treatment adopted by East Devon District Council.

When Strata began trading, staff transferred to the company under TUPE arrangements and Strata took over the full pensions liabilities relating to these staff, which in some cases may have been built up over a number of years of Council service. The way in which pensions impact on the income and expenditure account is different between companies and Local Authorities. When the Council consolidated the figures for Strata into its own financial statements it applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.22 million. Our view is that was not appropriate as the Council has not been able to provide us with a compelling case for applying this override. We have recommended to the Council that they obtain legal advice about the guarantees provided by the Councils for the pension liabilities of Strata, with the ultimate aim of resolving this issue in 2015/16.

We have also identified a number of adjustments to improve the presentation of the financial statements.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 24 September 2015, meeting the deadline set by the Department for Communities and Local Government (DCLG). 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.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 24 September 2015.</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 2015.</p>
Certification of housing benefit grant claim	<p>Our work on the certification of the Housing Benefits claim is ongoing. The key messages from our certification work will be reported in our certification report, once all work has been completed.</p>
Audit fee	<p>Our fee for 2014/15 was £67,761, excluding VAT which was in line with our planned fee for the year and the fee charged in the previous year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>The Council has a rolling programme in place for property plant and equipment revaluations which ensure that all assets are revalued within a five year period, but all assets in the same class are not revalued in the same year.</p> <p>Recommendation: The Council should ensure that all assets within the same class are valued within the same financial year to meet the Code's requirements for revaluing of Property, Plant and Equipment in paragraph 4.1.2.35.</p>	Medium	<p>We are satisfied that there is no material difference from the value in the accounts to the value of we had actually revalued all assets. This will go in 2015/16 code.</p> <p>Responsible officer: Not applicable Due date: Not applicable</p>
2.	<p>When the Council consolidated the figures for Strata into its own financial statements, it applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.22 million. Our view was that was not appropriate, as Strata is a separate corporate body from the Council.</p> <p>Recommendation: The Council should seek legal advice regarding the accounting for the pensions liability of Strata Service Solutions Limited and, in particular, whether a guarantee from the three Councils could remove the liability from Strata's financial statements. The Council should arrange for the guarantee to be put in place in relation to the pension liability and account for this accordingly.</p>	High	<p>Legal advice sought by the three councils indicated that the statutory override is valid. Therefore we are not adjusting. The three Council's will look into the implications of the additional guarantee to establish whether it will work satisfactorily in a situation where there are three owners of the Company and we will seek further clarification for 2015/16.</p> <p>Responsible officer: Not applicable Due date: Not applicable</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Audit fee	67,761	67,761
Housing benefit grant certification fee	10,810	*10,810
Total audit fees	78,751	78,751

* The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £10,810. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

Fees for other services

Service	Fees £
Non-audit related services	
Place analytics subscription	5,000
Financial modelling	23,776

Reports issued

Report	Date issued
Audit Plan	29 April 2015
Audit Findings Report	18 September 2015
Certification Report (expected)	December 2015
Annual Audit Letter	1 October 2015



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