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11 July 2017

Dear Member

Audit Committee – 17 July 2017

I am now able to enclose, for consideration at the next meeting of the **Audit Committee**, the following reports that were unavailable when the agenda was printed.

Agenda.No. Item 8

To add to your agenda for the meeting on **17 July 2017**.

8. **Grant Thornton Audit Findings 2016/17** (Pages 3 - 32)

To receive a report from Grant Thornton summarising their findings following an audit of the 2016/17 financial accounts.

Yours sincerely

Sarah Lees
Committee Administrator

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The Audit Findings for Mid Devon District Council

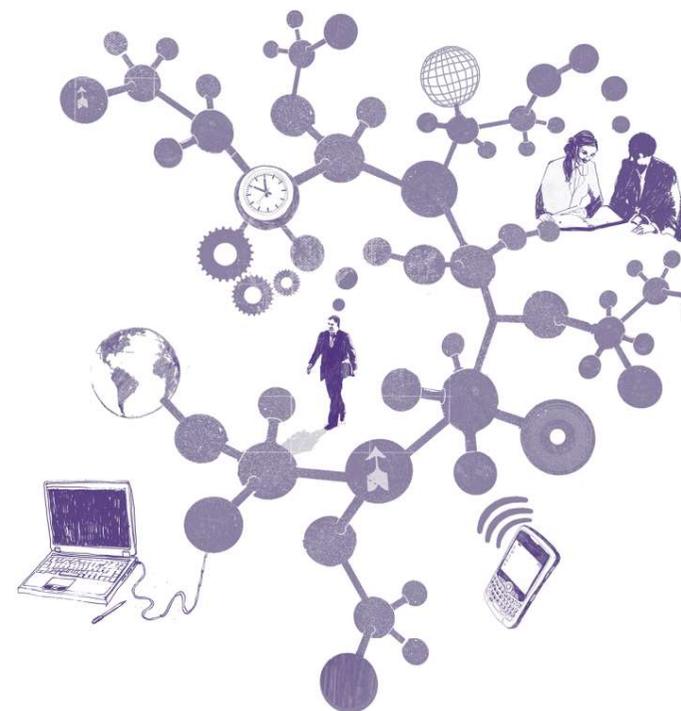
Year ended 31 March 2017

17 July 2017

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Agenda Item 8.

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17 July 2017

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Dear Members of the Audit Committee

Audit Findings for Mid Devon District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Mid Devon District Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As an auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely



Geraldine Daly

Engagement lead

Chartered Accountants

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Purpose of this report

This report highlights the key issues affecting the results of Mid Devon District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 21 March 2017

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

- Third party confirmation on investments with broker Prebon
- Review of the final version of the financial statements
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion; and
- Pension Fund assurance letter from the auditor of Devon County Council Pension Fund
- Whole of Government Accounts
- Final review of the Telling the Story transactions.

We received draft financial statements and accompanying working papers at the commencement of our work in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded Total Comprehensive Income and Expenditure of £11,586k, with a reported net Income of a £30k surplus. The following statutory year end adjustments were:

- Movement in the pension fund liability	14,697
- Surplus on the revaluation of Property, plant & Equipment	-3,247
- Deficit on revaluation of assets held for sale	250
- Other movements	-144

We identified that the Council's assets held for sale of £419k had been disclosed as a non-current asset rather than a current asset, although this has no effect on the Council's outturn, it has been amended in the statement. We also recommended a number of adjustments to improve the presentation and disclosure notes of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- As in the prior year, the accounts were prepared early to enable a faster delivery of the audit opinion and this has been achieved; and
- We have not identified any adjustments that affect the Council's reported financial position

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our current review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We have suggested some increased narrative in both statements to meet the requirements of good practice. Other than that, we are satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

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.

Findings

We have identified two weaknesses in your IT arrangements that we have detailed in this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We have made a recommendation around the monitoring and scrutiny of savings plans needed to deliver the medium term financial plan.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2018.

The way forward

Matters arising from the financial statements audit and our 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, Assets and Resources

Acknowledgement

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
July 2017

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £985k (being 2% of prior year gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and identified that gross revenue expenditure for the year was lower than the prior year, that led us to revise our overall materiality to £935k (being 2% of gross revenue expenditure, after adjusting for one-off revaluation gains in the HRA due to the change in the adjustment factor on council dwellings valuations).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £46,750. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£10,000
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Mid Devon District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited given the type of material income streams that the Council has - e.g. Government Grants, Council Tax collection and • the culture and ethical frameworks of local authorities, including Mid Devon District Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> <p>We have also set out our findings in respect of the authorisation of journals raised in the audit plan.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>Having considered the risk factors set out in PN10 and the nature of the expenditure streams at Mid Devon District Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> opportunities to manipulate expenditure recognition are very limited The culture and ethical frameworks of local authorities, including Mid Devon District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Mid Devon District Council as our experience is that expenditure is well controlled and monitored.</p> <p>We set out in our work on reasonably possible risks, how we have satisfied ourselves over the completeness of operating expenses, creditor balances and expenditure on employees.</p>	<p>Our audit work has not identified any issues in respect of expenditure recognition.</p>
<p>Valuation of property, plant and equipment The Council revalues its assets annually, at the 31st March. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>The Council's Council Dwellings increased in value by £17,796k in 2016/17. This was primarily due to the change in discount adjustment in the DCLG guidance, from 31% to 35%. This discount when applied reduces the market value to 35% (31%) of the open market valuation, thus contributing to an increase in the reported value of Council dwellings.</p> <p>We further identified that the Asset Held for Sale at the balance sheet date had been incorrectly classified as non current assets rather than as a current asset. This has subsequently been adjusted. See page 18 of this report.</p> <p>Our work has not identified any issues in this area in respect of the valuation of property, plant and equipment.</p>

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>The Pension Liability disclosed in the accounts has increased by £16,502k, primarily as a result of the reduction in the discount rate applied by your actuary. We have reviewed all the assumptions applied and are assured this is in line with general application across Local Government pension schemes.</p> <p>We use an audit expert – PWC- to review the methodology and assumptions made by the actuaries across the country. PWC's review highlighted that some of the estimates used by your actuary - Barnett Waddingham were out of line with other actuaries, specifically the discount rate and the future inflation rate, which were are higher than the average.</p> <p>We therefore reviewed the assumptions made and performed a sensitivity analysis of the rates applied. This work concluded that, whilst the expectation is that the liability is higher than other actuaries might forecast, (a point estimate range of between £300k - £444k) it is, nevertheless a reasonable estimation of the potential liability.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (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 over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Undertaken a substantive test a sample of remuneration transactions throughout the year 	<p>Our work has not identified any issues in this area</p>
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<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 over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Agree creditors to the ledger Substantive testing of significant creditor balances Review of after date payments to ensure all liabilities identified 	<p>Our work has not identified any material issues in the area. However, we did identify a misclassification of £250k between short term creditor headings in the note to the accounts. This does not affect the overall total for short term creditors and has subsequently been adjusted.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>The Council has followed the CIPFA recommended disclosure for the re-statement of the Comprehensive Income & Expenditure statement. However, this did not take account of the fact that this re-statement disclosure does not form part of a primary statement set out in the audit opinion. We have therefore recommended that this is reported as a note to the financial statements. This has been adjusted in the financial statements.</p> <p>We did not identify any further issues in respect of the reclassification of income and expenditure within the CIES and the associated restatement note or the revised grouping of entries within the MIRS.</p>

Significant matters discussed with management

	Significant matter	Commentary	
1.	Other than the risks reported there were no significant matters discussed with management.		

Accounting policies, estimates and 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
<p>Revenue recognition</p>	<ul style="list-style-type: none"> • Council Tax income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income. • Retained Business Rate income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income. • Grants and Contributions, whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that: <ul style="list-style-type: none"> • the Authority will comply with the conditions attached to the payments, and • the grants or contributions will be received. • Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. 	<p>The policies are:</p> <ul style="list-style-type: none"> • appropriate under the Local Authority Accounting code of Practice (the code); • adequately disclosed in the accounting policies; • consistent with the code; and • have been applied appropriately. 	<p style="text-align: center;">  Green </p>

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Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and 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
<p>Judgements and estimates</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 17</p>	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Accruals Provision for NNDR appeals Valuation of pension fund net liability 	<p>We have reviewed the Council's Judgements and estimates and concluded that these are reasonable in respect of the financial statements and the disclosure of financial position of the Council. We would comment as follows:</p> <ul style="list-style-type: none"> We considered the assumptions made by the District valuer as reasonable for Mid Devon, we did however, note that three assets had their useful lives incorrectly reported, this has been adjusted. The Council's accruals process at year end is appropriate. The estimation of possible NNDR appeals is reasonable. The valuation of the pension fund liability. Some of the estimates used by Barnett Waddingham are out of line with other actuaries, specifically the discount rate and the future inflation rate, which are higher than the average. Our work on the sensitivity of the rates applied has shown that these rates work in opposition and that, whilst the expectation is that the liability is higher than other actuaries might forecast, it is, nevertheless a reasonable estimation of the potential liability. 	<p style="text-align: center;">  Green </p>

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance, Assets and Resources, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

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Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit. We will update our understanding of management's arrangements at the Committee.
2.	Matters in relation to related parties	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	Written representations	A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests for Bank and Investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation,
6.	Disclosures	Our review found no material omissions in the financial statements. We have agreed some minor disclosure amendments, which management have included in the final statements.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>We have yet to complete our work on Whole of Government Accounts.</p>

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Non-current assets £'000	Current assets £'000	Impact on total net expenditure £000
1 £419k of assets have been designated as being held for sale these should have been classified a short term current assets	-419	-419	No impact
Overall impact	-419	-419	No impact

There are no unadjusted Misstatements

Misclassifications and 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 £'000	Account balance	Impact on the financial statements
1 Misclassification	250	Creditors due within one year	Misposted reversal of £250k between central government bodies and other local authorities. No impact on the total for short term creditors but does however have an impact on the disclosure.
2 Disclosure	n/a	Analysis of expenditure by nature	Errors in classification have been identified and discussed with Rod Hewson & Andrew Jarrett - they will review classifications and revise the amounts.
3 Disclosure	n/a	Restatement of CIES, EFA & Expenditure and Income Analysed by Nature	The Council has followed the CIPFA recommended disclosure for the re-statement of the Comprehensive Income & Expenditure statement. However, this did not take account of the fact that this re-statement disclosure does not form part of a primary statement set out in the audit opinion. We have therefore recommended that this is reported as a note the financial statements. This has been adjusted in the financial statements.
4 Disclosure	10	Note 15 External audit Costs	Updated to reflect additional advice given regarding the Council's proposed SPV.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	 Amber	<p>Weak Password Management</p> <p>At the time of review passwords in Active Directory and the reviewed systems do not meet best practice standards</p> <ul style="list-style-type: none"> Length – 7 in AD and 6 characters (Finance system) Strength – no complexity required in Finance system <p>This can compromise the security of user accounts through password guessing or cracking which could allow sensitive information to be accessed by those with no authority to do so.</p>	<p>Where possible, the organisation should enable align all password policies in the applications in use and provide guidance in the security policies to ensure that all user passwords meet the following minimum requirements:</p> <ul style="list-style-type: none"> Are at least 8 characters long Are complex i.e. must contain a combination of upper and lower case characters, numbers and special characters Meet a standard set out in the Acceptable Use Policy <p>If any system cannot enforce such a restriction, the organisation should explore the use of other controls designed to address the risk of password compromise.</p>

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The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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 being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls

	Assessment	Issue and risk	Recommendations
2.	 Amber	<p>Review of information security logs</p> <p>Logs of information security activity, for example, unauthorised access attempts within the financial applications and Active Directory were not being formally, proactively, and routinely reviewed. This is particularly important in the Arinso payroll system, where the payroll management staff have multiple roles and appropriate segregation of duties between financial management and system management cannot be enforced due staff numbers.</p> <p>Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity may not identified and/or addressed in a timely manner.</p>	<p>The logs relating to information security events should be formally reviewed for the purpose of detecting inappropriate or anomalous activity.</p> <p>These reviews should be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p>

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The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

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

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Internal controls – review of issues raised in the audit plan

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p> <p>Our work to date has identified one issue that we wish to bring to your attention.</p> <p>There is no formal authorisation process for journals raised during the year. Therefore, the Council does not have a preventative control to identify entries that are erroneous.</p>	<p>As part of our work on journals, we have targeted part of our testing to address the issue identified.</p> <p>Initially there had been an element of self-review over journals processed by the two principal accountants. However, following discussions, these journals were followed up to ensure a cross review had taken place.</p> <p>We have subsequently reviewed these journals and no issues over the journals were highlighted.</p> <p>The principal accountants have agreed to continue this independent review process.</p>

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Assessment
 ✓ Action completed
 X Not yet addressed

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a one significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated the risk to you in our Audit Plan dated 21 March 2017.

The Council was forecasting an overspend of £64k for 2016/17; a budget for 2016/17 that is balanced using £89k of New Homes Bonus, and whose future is uncertain as the preliminary grant settlement shows the elimination of Revenue Support Grant by 2019/20. The MTFP shows a deficit of £419k in 17/18 which increases annually, peaking at £975k in 2020/21. Without any action the General Fund reserve of £2.2m would become overdrawn by £1.25m over the life of the plan.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council has arrangements in place to address the funding gap; and
- the Council is exploring ways of achieving its projected savings and has already identified significant areas where savings can be achieved.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work below.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial outlook</p> <p>The Council was forecasting an overspend of £64k for 2016/17; a budget for 2016/17 that is balanced using £89k of New Homes Bonus, and whose future is uncertain as the preliminary grant settlement shows the elimination of Revenue Support Grant by 2019/20. The MTFP shows a deficit of £419k in 17/18 which increases annually, peaking at £975k in 2020/21. Without any action the General Fund reserve of £2.2m would become overdrawn by £1.25m over the life of the plan.</p>	<p>We reviewed the Council's arrangements for putting together and agreeing its medium term financial plan, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2016/17, 2017/18 and beyond.</p> <p>In addition we considered the 2016/17 accounts and financial out-turn for the year. These showed an underspend of £30k, and allowed for transfers to usable reserves of £5,847k. This included £927k increase in new homes bonus and £2,716 increase in HRA earmarked reserves.</p>	<p>At 31 March 2017 the Council finds itself in a strong financial position. It has achieved its savings plans and cut costs, without any appreciable reduction in service delivery or quality. Although the myriad of uncertainties affecting local government make medium term financial planning far more challenging, the fairly recent confirmation of a fixed 4 year funding settlement has at least given some clarity to one of the Council's major funding sources. And to this end the Council's senior leadership team is already working to set a strategic 5-7 year vision which is both deliverable and affordable.</p> <p>However, savings need to be achieved to meet the funding gap identified in the medium term financial plan. The Council has achieved its plans for 2016/17, and quarterly reporting against the budget has ensured that the savings have been achieved.</p> <p>Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting.</p>

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Significant matters discussed with management and any other matters

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance. There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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

Fees

	Proposed fee £	Final fee £
Council audit	47,700	47,700
Grant Certification – HB Subsidy	6,908	6,908
Total audit fees (excluding VAT)	54,608	54,608

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	None
Non-audit services	
- Pooling of capital receipts 2015/16	1,500
- HCA Decent Homes backlog claim 2015/16	2,000
- Taxation advice in respect of Special purpose Vehicle	10,000

Communication to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
<p>1.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 30</p>	<p>Weak Password Management</p> <p>Where possible, the organisation should enable align all password policies in the applications in use and provide guidance in the security policies to ensure that all user passwords meet the following minimum requirements:</p> <ul style="list-style-type: none"> • Are at least 8 characters long • Are complex i.e. must contain a combination of upper and lower case characters, numbers and special characters • Meet a standard set out in the Acceptable Use Policy <p>If any system cannot enforce such a restriction, the organisation should explore the use of other controls designed to address the risk of password compromise.</p>			
<p>2</p>	<p>Review of information security logs</p> <p>The logs relating to information security events should be formally reviewed for the purpose of detecting inappropriate or anomalous activity.</p> <p>These reviews should be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p>			

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
3.	<p>Savings plans</p> <p>Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting to the Council and Members.</p>			

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



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