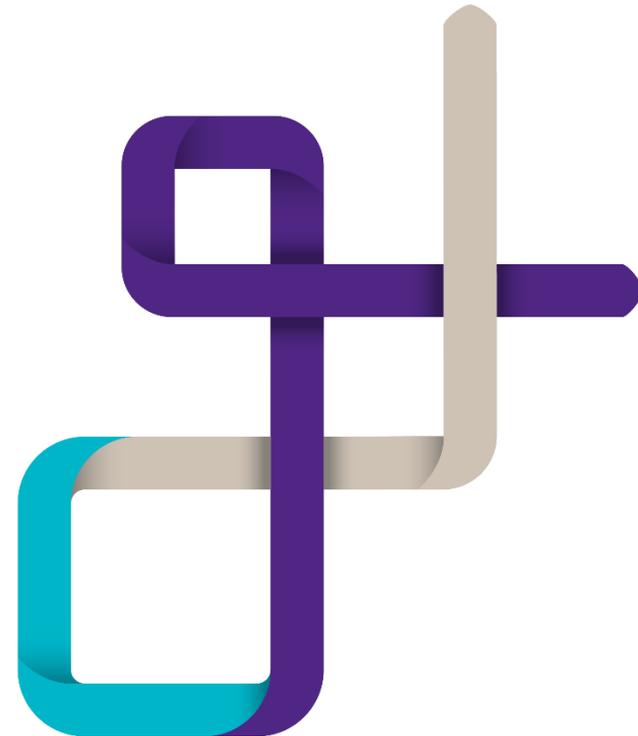


Audit Findings

Year ending 31 March 2018

Mid Devon District Council

16 July 2018



Contents



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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Mid Devon District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June. Our findings are summarised in the financial statement section of this report. We have identified one adjustment to the financial statements that have resulted in a net £30k adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 16 July 2018.</p> <p>At the time of writing this report, these items include:</p> <ul style="list-style-type: none">Conclusion of our ongoing review of the classification of the premier inn lease;Completion of Whole of Government Accounts review;Receipt of confirmation from the DV regarding qualifications and independence as well as the appropriateness of the 35% social housing factor;updating or subsequent event review;receipt of management representation letter; andreview of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Mid Devon District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised in the VFM section of this report.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the group and Council's business and is risk based, and in particular included:

At the time of writing our Audit Plan the Council were proposing to not produce group accounts. The Council subsequently took the decision to produce group accounts on the grounds of materiality and to ensure that prior year comparators were available for 2018/19 when the financial impact of 3 Rivers Ltd is expected to be larger. We have therefore had to revise our audit approach to include group procedures.

- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that analytical procedures were required for 3 Rivers Ltd. This was due to the immaterial amounts consolidated. Group and single entity materiality are both set at £935k. This is again due to the immaterial impact on the groups statements of the company; with the single entity making up a significant proportion of the balances.
- An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries set out on page 3 of this report being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 16 July 2018.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Mid Devon District Council.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	935,000	935,000
Performance materiality	701,000	701,000
Trivial matters	46,750	46,750

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570). Although we did not identify a significant risk in relation to a material uncertainty of going concern, ISA 570 requires auditors to detail commentary on going concern.

Going concern commentary

Management’s assessment process

Management have carried out a detailed assessment of the Council’s ability to continue as a going concern. This process included undertaking a detailed cash flow forecasts through to March 2019. As part of this assessment management have considered their general fund and earmarked reserves balances as well as their net current asset position on their balance sheet.

Auditor commentary

- We have concluded that management’s process is adequate and that the assessment is supported by robust assumptions.

Work performed

We have:

- discussed with management the financial standing of the Council;
- reviewed and challenged management’s assessment of going concern assumptions and supporting information, e.g. medium term financial planning assumptions and cash flow forecasts;
- reviewed savings targets over the medium term as part of drawing our VFM conclusion.

Auditor commentary

- We have reviewed managements assessment and have not identified any issues that would lead us to believe that there is a material uncertainty in the Council’s assumption in preparing the financial statements on a going concern basis.

Concluding comments

- Following our review we are satisfied with management’s assessment of use of going concern basis of accounting.

Auditor commentary

- Based on the work completed we plan to issue an unmodified audit opinion in relation to going concern.
- Our audit work detailed in the VFM section this report provides more commentary regarding the financial challenge faced by the Council.

Significant audit risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition.
- opportunities to manipulate revenue recognition are very limited as a large proportion of income comes from general government grants, HB subsidy Council Tax and NDR ; and
- The culture and ethical frameworks of local authorities, including Mid Devon District Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Mid Devon District Council.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed accounting estimates, judgements and decisions made by management,
- tested journal entries,
- reviewed unusual significant transactions, and
- reviewed significant related party transactions outside the normal course of business.

Our audit work has not identified any issues in respect of management override of controls.

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed 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.

Our audit work has not identified any issues in respect of this risk.

Significant audit risks (cont)

Risks identified in our Audit Plan	Commentary
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</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>Our work to date has not identified any significant issues. However, there are two areas where, at the time of writing this report, we had not concluded our work:</p> <p>We are awaiting a response from the DV in relation to his independence, objectivity and qualification, as well as confirmation regarding the appropriateness in using the South West social housing factor of 35% for Mid Devon; and</p> <p>The Council have accounted for the Premier Inn lease as finance in nature. We continue to review this judgement and have recommended that the Council make additional disclosures relating to why this transaction should be classified as a finance lease and classify this as a critical judgement. The amount of this transaction is £900k and is not material. This land value has been written out of the balance sheet by the council. We continue to re-evaluate our review of the length of the lease (125 years) and the risks and rewards associated with the transaction, in accordance with accounting standards.</p> <p>Our work identified that depreciation had not been charged across a number of assets. The Council have therefore understated depreciation by £52k. The accounts have been amended for this error. The Council's fixed asset register is extremely complicated which contributed to this error. We have therefore recommended that the Council review the Fixed Asset Register to ensure it produces accurate figures for inclusion in the financial statements.</p>

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>Employee remuneration Payroll expenditure represents a significant percentage (31%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognising payroll expenditure for appropriateness, 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, reconciled payroll expenditure reported in the financial statements to total expenditure recorded in the payroll system, and performed substantive analytical procedures. <p>Our audit work has not identified any issues in respect of this risk.</p>
<p>Operating expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls, evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, agreed creditors to the ledger, substantively tested significant creditor balances, and reviewed after date payments to ensure all liabilities have been identified. <p>Our audit work has not identified any issues in respect of this risk. However, please see the issue raised under PPE in relation to depreciation as this also impacts on expenditure.</p>

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
Significant events or transactions that occurred during the year	<ul style="list-style-type: none"> • During the year the Council received £0.900m in relation to a lease with Premier Inn. The lease was for the land adjacent to the multi-storey carpark on which Premier Inn are currently building a hotel. • The Council have accounted for this as a finance lease and as such have derecognised the land and accounted for the £0.900m as a capital receipt. The Council have put together a detailed paper setting out why it is felt that the lease meets the criteria of the accounting lease standard. • There are a number of criteria to be considered when assessing the classification of a lease. Not one of these criteria is more important than another. In all aspects of lease accounting, each case and contract has to be reviewed individually. The Council's view is that the length of the lease - 125 years constitutes a significant part of the land's economical value and that a significant amount of risk and rewards have been transferred to Premier Inn as part of this transaction. • We have requested and obtained detailed considerations from the Council and the Council's adviser as to why management believe that this lease would fall into the category of a finance lease. As part of our ongoing audit, we have considered these views in detail and challenged further where necessary and appropriate. As lease arrangements are often complex and often a "grey" area, we want to ensure that all aspects of the lifetime of the lease, the risks and rewards and any wider practices are considered as part of the audit work. We acknowledge that the consideration of the value of the land has been provided at the inception of the lease agreement and that the 125 year period does need to be considered as part of the life value of the land asset. We continue to review the balance of this against the risk and rewards attributable to the land and the lease. 	<p>Auditor view</p> <p>Our work is ongoing on this matter. We will provide an update on our considerations ahead of the Audit Committee meeting. Management have concluded that they believe that this transaction constitutes a finance lease and have therefore written out the value of the land from the Council's balance sheet. This transaction is not material. The matter is related to the land transaction only and does not have an impact upon the build or building of the hotel.</p> <p>In terms of the hotel building, the lease does allow Premier Inn to build into 82 car park spaces in the multi storey car park adjacent to the land. These spaces are currently still in use as parking spaces and were as at 31 March 2018. Management are aware that the value of these car park spaces will need to be written out of the Council's balance sheet during 2018/19 and we would recommend that management continue to review the use of these spaces.</p> <p>Management response</p> <p>We have undertaken extensive research, received expert advice and compared our treatment with those of other local authorities. Following this work we provided various briefing notes to Grant Thornton, detailing our judgements and rationale. This culminated in a summarised report to the Grant Thornton Associate Director on 27 June 2018, with our final proposal. We are confident therefore that we have treated this transaction correctly from a technical accounting point of view but also in the most transparent manner for the reader of the accounts.</p> <p>Our annual revaluation process will identify what level of impairment is appropriate in relation to the loss of car parking spaces.</p>

Findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
3 Rivers Ltd	N/A	<ul style="list-style-type: none">• We have concluded that the basis for consolidation was correct as the Council have treated the company as a subsidiary.• We have undertaken analytical procedures in relation to the consolidation of 3 rivers.• We identified one issue in that £227k of costs have been consolidated as Assets Under Construction. As these relate to costs in building houses for sale at market rates they do not meet the definition of PPE and as such should be accounted for as work in progress.	<ul style="list-style-type: none">• The group financial statements have been adjusted for this classification error.• We have raised recommendations as part of our VFM work in relation to the Council considering the future funding of the company.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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. 	

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions 	<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. • 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. The estimates used by Barnett Waddingham are in line with other actuaries and we consider will produce a reasonable estimation of the potential liability. 	
Other critical policies		<p>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.</p> <p>We have requested that the Council include a critical judgement in relation to accounting for the Premier Inn lease.</p>	

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. 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 related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit Committee papers. Specific representations have been requested from management in respect of accounting for the Premier Inn lease.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation request(s) to banks and financial institutions with which the Council have investments. This permission was granted and the requests were sent. We have received positive confirmations in all cases.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit, and If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ 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>No detailed work is required in this area as the Council id below the thresholds set by the NAO.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Mid Devon District Council's in the audit opinion.</p>

Value for Money

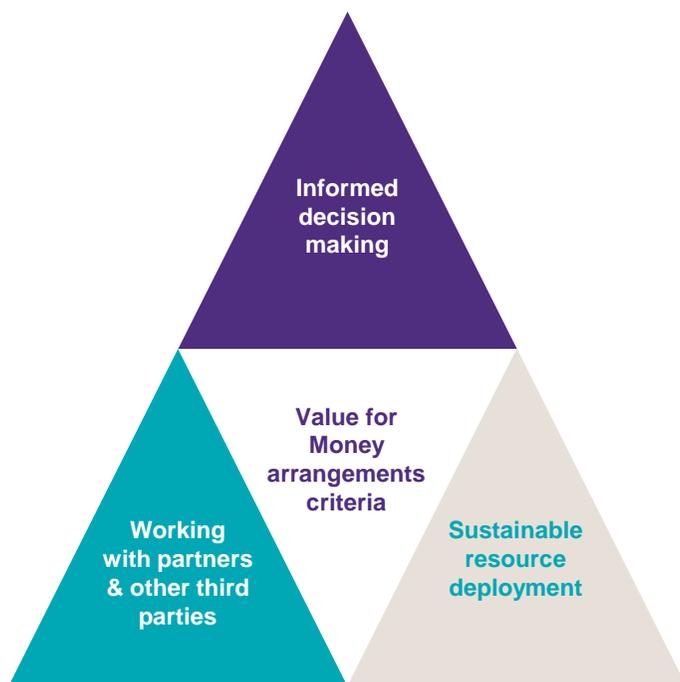
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 23 January 2018.

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 risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial outturn position and medium term financial plan;
- Arrangements for delivering and monitoring savings plans;
- Information provided to members for decision making in relation to setting up 3 Rivers Ltd;
- Arrangements for monitoring the performance of 3 Rivers Ltd.

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

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.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

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.

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	Findings	Conclusion
<p>1 Financial resilience</p> <p>Like the majority of Councils Mid Devon District Council face a significant financial challenge over the medium term. The Council is forecasting an overspend of £181k in 2017/18 and has a funding gap of £4.1m through to 2021/22. The Council currently has a General Fund Reserve of £2,241k, which is above the approved minimum level of £2,100k. Without action General Fund Reserves will be eroded 2020/21.</p> <p>In response to this risk we will review the significant assumptions made in the Council's medium term financial plan and progress towards closing the funding gap.</p>	<p>Mid Devon District Council face a significant financial challenge over the medium term.</p> <p>The Council started 2017/18 with a £2.6m general fund balance and ended the year with £2.7m.</p> <p>The Council have a significant savings target (circa £5m), which at present is not monitored separately.</p> <p>A key assumption made as part of the MTFP is that 100% pilot status is granted for business rates.</p> <p>The Council have a number of initiatives in play to increase revenues. For example the premier inn transaction which will increase business rates, and 3 Rivers which will increase revenues through new homes bonus and council tax revenues.</p>	<p>Auditor view</p> <p>Despite the challenges faced by the Council there are adequate arrangements in place to achieve financial resilience.</p> <p>Currently the Council does not monitor its savings programme on a scheme by scheme basis. There is a risk that there could be a perceived lack of transparency. Clearly identifying savings schemes allows each scheme to be monitored but also to ensure that there is no adverse impact on services.</p> <p>Management response</p> <p>All material savings plans are communicated to Cabinet and the appropriate PDGs during the budget discussions. Monthly budget monitoring is undertaken and reported with a materiality of between £5k and £10k. Detailed reports are provided for each service and we are confident that these are suitably transparent to provide the reader with an understanding of how the service is performing in relation to delivering the savings previously agreed. This Council has an excellent record of saving delivery and consistently reports an outturn which has limited overspends. We therefore do not see this as a risk which is of a concern to this authority.</p>
<p>2 Housing Company arrangements</p> <p>During 2017/18 the Council set up 3 Rivers Development Company Ltd. This was incorporated at Companies House on 28 April 2017. This represents a new, innovative way to deliver services.</p> <p>In response to this risk we will review the Councils arrangements for setting up, monitoring and reporting the performance. We will also review the governance arrangements in place.</p>	<p>Like a number of Councils Mid Devon District Council have set up a company with its primary purpose being to generate revenues.</p> <p>Our review of the papers presented to cabinet found that the adequate information was provided to inform decision making.</p> <p>Our review further found that the ongoing governance and monitoring arrangements are currently being developed.</p>	<p>Auditor view</p> <p>We have reviewed the arrangements in place for setting up the company and have found them to be adequate. The arrangements are however in their infancy and as such ongoing work needs to be undertaken by the Council to ensure that arrangements remain adequate. The key areas for the Council to consider going forward are:</p> <ul style="list-style-type: none"> • How the loan to the company will be funded, • The ongoing monitoring of the companies performance (as noted in the revised AGS action plan), and • A review of the governance arrangements to ensure that these remain appropriate and on an arms length basis. <p>Management response</p> <p>Agreed. These recommendations are as we proposed. We will apply the same robust governance to the company as we do to the MDDCs financial affairs.</p>

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	1,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of £47,700 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Action plan

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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	Issue and risk	Recommendations
●	The Council's fixed asset register (FAR) is extremely complicated which contributed towards an error identified in the calculation of depreciation. The FAR produces large figures feeding into the financial statements.	<p>We have therefore recommended that the Council review the Fixed Asset Register to ensure it produces accurate figures for inclusion in the financial statements.</p> <p>Management response</p> <p>Agreed. In advance of next year's closing, we will review the workings of our Fixed Asset Register, conferring with our other local authority peers for advice on alternative methods of delivering this complex area of the accounts.</p>
●	In our testing of creditors we identified one instance of an accrual which was found to be invalid. We have assessed the error and consider the error to be significantly trivial however we noted the error arose due to an internal control failure within the process of recording accruals. Management stated the process of an order becoming an accrual is that the order sits on the system as a commitment up to the point at which the goods are received at which the point the order becomes an accrual until the invoice is paid. Management will review purchase orders which are no longer valid and will delete them from the listing however we identified the control did not pick up this item and it was incorrectly accrued for.	<ul style="list-style-type: none"> It is recommended management review the controls put in place to identify invalid purchases orders. <p>Management response</p> <p>Agreed. We will impose a more robust process to our regular monthly reports to managers so that we can be assured that any outstanding orders are still valid. This will follow discussion with the Group Managers.</p>

Controls

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

Action plan (cont)

Assessment	Issue and risk	Recommendations
●	Currently the Council does not monitor its savings programme on a scheme by scheme basis. There is a risk that there could be a perceived lack of transparency. Clearly identifying savings schemes allows each scheme to be monitored but also to ensure that there is no adverse impact on services.	<p>We have therefore recommended that the Council set out detailed savings plans and monitor progress against each of these.</p> <p>Management response Disagree. Please see managements response on page 17 of this report.</p>
●	The Council plan to fund 3 Rivers Ltd through the use of loan capital.	<p>The Council should review funding plans to ensure the loan can be funded from capital resources. Where applicable to Council should obtain appropriate technical and accounting advice.</p> <p>Management response Agreed. We will be taking 3rd party technical advice to ensure that we are compliant with our plans going forward.</p>
●	The Council's 3 Rivers Ltd has been set up during the year. With all new companies arrangements will change over time as the company grows and develops.	<p>The Council should review governance and monitoring arrangements to ensure that these remain appropriate and on an arms length basis.</p> <p>Management response Agreed. Please see managements response on page 17 of this report.</p>
●	The lease with Premier Inn allows the hotel to built into 82 car park spaces in the multi story carpark adjacent to the Phoenix House. Management are aware that this will impair the value of the asset and this will need to be considered in 2018/19	<p>Management should continue to monitor the operation performance of the car park and consider the impact of changes in capacity as part of their ongoing impairment reviews.</p> <p>Management response Agreed.</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Mid Devon District Council's 2016/17 financial statements, which resulted in 3 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note the 3 issues are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<ul style="list-style-type: none"> Weak Password Management <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>Management response</p> <p>The eFinancials system has been updated and now requires all users to comply with these security policies, e.g. passwords of at least 8 characters; a mixture of special and alpha numeric characters etc. We will continue to review our other systems to ensure there are adequate controls in place. The overarching password for access to our network provides additional security.</p>
2 ✓	<ul style="list-style-type: none"> Review of information security logs <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>	<p>Management response</p> <p>The IT department undertake regular checks and annual security reviews to test the integrity of our firewall and other defences. They continually implement upgrades in order to ensure we are adequately protected.</p> <p>We also carry out formal tests of who has access to the system and what levels of access they have, testing for appropriateness, authority levels and adequate segregation. This was agreed following last year's audit.</p>
3 X	<ul style="list-style-type: none"> Savings plans <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>	<p>We have reassessed the Council's medium term financial plan as part of our 2017/18 VFM work. Further recommendations have been raised in relation to monitoring savings.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 We identified one issue in that £227k of costs have been consolidated as Assets Under Construction. As these relate to costs in building houses for sale at market rates they do not meet the definition of PPE and as such should be accounted for as work in progress.	No impact of single entity statements. Group statements have been updated. The adjustment reclassifies between non-current and current assets. There is no overall impact on the Balance Sheet from this error.		
2 Our work identified that deprecation had not been charged across a number of assets. The Council have therefore understated depreciation by £52k. The accounts have been amended for this error. The Council's fixed asset register is extremely complicated which contributed to this error. We have therefore recommended that the Council review the Fixed Asset Register to ensure it produces accurate figures for inclusion in the financial statements.	(£30k)	(Adjustments net to Nil)	(£30k)
Overall impact	(£30k)	(Adjustment net to Nil)	(£30k)

Audit Adjustments (cont)

Misclassification 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Financial statements - various	During the course of the audit a number of small disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.	None.	✓
Annual Governance Statement	Our review of the Councils Annual Governance Statement identified that no reference was made of assurances gained over the 3 Rivers Company.	None.	✓
Financial Instruments	Our review identified that £298k of trade receivables had been incorrectly excluded from the financial instruments note. These were contractual obligations and as such should have been included in the financial instruments note.	None.	✓
Critical Judgements	As part of reviewing the Council's accounting policies we requested that the Council include a critical judgement in relation to accounting for the Premier Inn lease.	None.	✓

Impact of unadjusted misstatements

At the time of writing this report there were no unadjusted misstatements.

Fees

We confirm below our final fees charged for the audit. There were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	47,700	47,700.
Grant Certification	6,908	TBC
Total audit fees (excluding VAT)	£54,608	TBC

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

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
Certification of Housing capital receipts grant	1,500
	£1,500



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