Grant Thornton

Annual Audit Letter

Year ending 31 March 2018

Mid Devon District Council

8 August 2018

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Mid Devon District Council (the Council) and its subsidiary (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 16 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £0.935m, which is 2% of the Council’s gross revenue expenditure. Group and single entity materiality were both set at £0.935m. This was due to the immaterial impact on the groups statements of the company; with the single entity making up a significant proportion of the balances.
Financial Statements opinion	We gave an unqualified opinion on the Group's financial statements on 24 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council’s consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 24 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Mid Devon District Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June, delivering the accounts 5 days before the deadline, releasing your finance team for other work.
- We have made recommendation to improve internal controls in relation to the Council and the Group.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting. We also provided Housing Benefit Training to your team as well as insight into future certification arrangements.
- We have had dialogue throughout the period on emerging technical issues and have offered our thoughts and challenge where appropriate. An example of this was the very detailed consideration of the Premier Inn lease classification. More details on this are set out on page 7 of this report.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the Group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £0.935m, which is 2**%** of the Council's gross revenue expenditure. Group and single entity materiality were both set at £0.935m. This was due to the immaterial impact on the groups statements of the company; with the single entity making up a significant proportion of the balances. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £46,750, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the narrative report, and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could 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 did 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.	As part of our audit work we have: • 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 did 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.	As part of our audit work we have: • identified the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gained an understanding of the basis on which the IAS 19 valuation were carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made, and • reviewed 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 did not identified any issues in relation to this risk.

Audit of the Accounts

Significant Audit Risks (cont)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	As part of our audit work we have: • reviewed of management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • reviewed the instructions issued to valuation experts and the scope of their work; • discussed with the Council's valuer about the basis on which the valuations were carried out, challenging the key assumptions. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluated 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.	Our work identified that deprecation had not been charged on seven assets. The Council have therefore understated depreciation by £0.052m. The accounts have been amended for this error. The Council accounted for a £0.900m lease with Premier Inn as finance in nature. We had ongoing discussion throughout the audit with management about the classification of this lease. It was concluded that the Council's classification as a finance lease was reasonable. Additional disclosures were however recommended and these were added into the critical judgements section of the financial statements setting out the key judgements.

Audit of the Accounts

Reasonably Possible Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Employee remuneration Payroll expenditure represents a significant percentage (31%) of the Council's operating expenses. 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.	As part of our audit work we have: • evaluated the Council's accounting policy for recognising payroll expenditure for appropriateness; • documented our understanding of processes and key controls over the transaction cycle; • Undertook a 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.	Our audit work did not identified any issues in relation to this risk.
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. We identified completeness of non- pay expenses as a risk requiring particular audit attention.	As part of our audit work we have: • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated 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.	Our audit work did not identified any issues in relation to this risk.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Group's financial statements on 24 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council/Group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 16 July 2018 in our detailed audit findings report.

Annual Governance Statement and Narrative Report

We are required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We issued an assurance statement which confirmed the Council was below the audit threshold on 25 July 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not had cause to use any of these additional powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Mid Devon District Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2018, we agreed recommendations to address our findings. These were:

- that the Council set out detailed savings plans and monitor progress against each of these;
- that the Council should review funding plans, in relation to 3 Rivers Ltd, to ensure the loan can be funded from capital resources. Where applicable to Council should obtain appropriate technical and accounting advice; and
- that the Council should review governance and monitoring arrangements, in relation to 3 Rivers Ltd, to ensure that these remain appropriate and on an arms length basis.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th><th>Findings and conclusions</th></tr>
<tr><td>Financial resilience

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 £0.181m in 2017/18 and has a funding gap of £4.1m through to 2021/22. The Council currently has a General Fund Reserve of £2.241m, which is above the approved minimum level of £2.100m. Without action General Fund Reserves will be eroded 2020/21.

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.</td><td>As part of our work we have:

reviewed the Council's Medium Term Financial Plan and the key assumptions within it;

reviewed the councils plans for closing the budget gap over the medium term;

reviewed progress in delivering savings plans;

discussed assumptions with key officers; and

carried out a detailed going concern review.</td><td>Mid Devon District Council face a significant financial challenge over the medium term.

The Council started 2017/18 with a £2.6m general fund balance and ended the year with £2.7m.

The Council have a significant savings target, which at present is not monitored separately. These are however reported to Cabinet as part of budget monitoring.

A key assumption made as part of the MTFP is that 100% pilot status is granted for business rates.

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.

Despite the challenges faced by the Council there are adequate arrangements in place to achieve financial resilience.</td></tr>
<tr><td>Housing Company arrangements

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.

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.</td><td>As part of our work we have:
• reviewed the decision making process followed by the Council when creating the company;
• discussed arrangements with senior officers;
• reviewed funding agreements;
• reviewed monitoring and reporting arrangements;
• reviewed the governance arrangements in place.</td><td>We reviewed the arrangements in place for setting up the company and found them to be adequate. The arrangements were 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:
• How the loan to the company will be funded,
• The ongoing monitoring of the company's 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.</td></tr>
</table>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and other audit related services.

Reports issued

Report	Date issued
Audit Plan	23 January 2018
Audit Findings Report	16 July 2018
Annual Audit Letter	6 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Group audit	47,700	47,700	47,700
Housing Benefit Grant Certification	6,908	TBC	6,908
Total fees	**54,608**	**TBC**	**54,608**

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

Fees for non-audit services

Service	Fees £
Audit related services - Certification of the Housing Capital Receipts grant	1,500
Non-Audit related services - None	N/A

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Group's policy on the allotment of non-audit work to your auditor.

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