Grant Thornton

The Audit Findings for Mid Devon District Council

Year ended 31 March 2020

11 August 2020

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.

Headlines

This table summarises the key findings and other matters 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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has been faced with the administration of grants to businesses, closure of car parks with the additional challenges of reopening services under new government guidelines and facilitating mobile testing centres. In addition, the finance team have faced the challenge of compiling the financial statements with the team working remotely. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 16 April 2020. In that addendum we reported an additional financial statements risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both the Council and audit team have had to embrace new working practices. This has included use of video conferencing, remote access to systems to independently verify data extracts, and the need for an increased level of flexibility. The accounts were submitted for audit later than originally planned, however, we were able to work with officers to minimise the impact of this on audit progress. We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. Our inflo document sharing systems has been pivotal in the process.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have 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. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site/remotely during June and July 2020. Our findings are summarised on pages 5 to 11. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments, processed and not processed by management are detailed in Appendix C. We have 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. Our work is substantially complete and other than the emphasis of matter in relation to the material uncertainty on Property, Plant and Equipment referred to later in this report, our proposed opinion is unqualified, subject to the following outstanding matters; • receipt of responses to pensions queries and receipt of assurance from the pension fund auditor; • receipt of outstanding evidence to enable completion of our testing in the following areas, property plant and equipment, and related parties. • completion of our group procedures; • receipt of 9 investment letters totalling £14m; • receipt of outstanding evidence to complete our VFM detailed work (progress on savings); • receipt of management representation letter; and • review of the final set of financial statements and subsequent events review.

Headlines (continued)

Financial Statements (continued)		We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting Property, Plant and Equipment valuation material uncertainties that were set out in the Council's valuer's report.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	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, except for its arrangements in relation to its commercial activities with 3 Rivers Development Ltd. This affects the following VFM criteria: • Acting in the public interest, through demonstrating and applying the principles and values of sound governance, • understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions, and • Managing risks effectively and maintaining a sound system of internal control. We therefore anticipate issuing a qualified 'except for' value for money conclusion. Our findings are summarised later in VFM section of this report.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	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.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report 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) and the Code, 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 Council and group's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering it as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for 3 Rivers Development Limited were required.

Audit approach (continued)

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 16 April 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to the resolution of outstanding queries, as set out on page 3, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 11 August 2020.

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.

We have revised the materiality percentage to reflect the increased risk due to the increased scrutiny in relation to 3 Rivers Development Limited.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	967,410	967,410	• Specific risks and sensitivities at the Council including increased scrutiny around the 3 Rivers Development Limited. The group and Council's materiality are set at the same value as group expenditure is not significantly higher than the Council's.
Performance materiality	677,187	677,187	• Low level of deficiencies in control environment and quality of financial statements in prior years
Trivial matters	48,400	48,400	• Based on materiality

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 9 June 2020, this was later than originally planned but we were able to work with the finance team to ensure the audit maintained forward momentum; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. We have identified no significant issues in relation to this risk. This is not to say that there has not been an impact. For example the Council have identified a material uncertainty in relation to property valuations and the financial challenge over the medium term has increased due to the lost income and the uncertainty of future government funding.
The revenue cycle includes fraudulent transactions 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.	We have reviewed material revenue transactions as part of our audit and we are satisfied that there have been no changes of circumstances requiring us to alter our proposed strategy with regards to revenue recognition in the latter part of the year.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work, including our review of journal entries and the related control environment, has not identified any issues with regards to management override of controls.
Changes to the finance team and the potential impact on capacity to produce the financial statements and the overall impact on the Council's overall control environment There have been a number of changes within the finance team which at present reduces the capacity of the remaining team members. Whilst we are satisfied with the capability of the remaining finance team, the is a risk that this reduced capacity could have an impact on the overall preparation of the draft financial statements and the operation of Council's overall control environment.	We have: • monitored the Council's arrangements to ensure that day to day financial processes are maintained effectively during this period of change. We have also discussed and reviewed changes in roles and responsibilities for the preparation of the accounts as part of our financial statements and VFM work. • worked with the finance team to assess those areas of the financial statements more susceptible to misstatement during this transition period and adapt our approach where necessary to reflect this risk. We have no issues to report against this risk. The draft financial statements were submitted for audit later than originally planned, however, we were able to work with officers to ensure the audit progressed by working on discrete areas of the financial statements whilst officers finalised these outstanding areas. We commenced the audit on 2nd June 2020 and we received the full draft financial statements on 9th June 2020. The accounts received were of a good standard, as were supporting working papers. Throughout the process officers have responded promptly to queries which enabled the audit to progress smoothly despite the logistical challenges presented by Covid 19.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (Rolling revaluation) The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£190 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been 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 has satisfied themselves that these are not materially different to current value at year end. We note this is completed by the valuer using indices. At the time of writing this report our work on Property, Plant and Equipment remains in progress. Although our work to date has not identified any significant issues we propose to included an emphasis of matter in relation to the uncertainties set out by the Council in Note 4 to the financial statements. This disclosure is in line with the information provided to the Council by the District Valuer and reflects the increased uncertainty in global markets created by covid-19.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£59 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • We have followed up the unadjusted misstatement reported in the 2018/19 Audit Findings Report and have ensured that this has now been adjusted correctly as a past service cost. At the time of writing this report we are awaiting responses from the Council and the Actuary to some audit queries. We also await assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Further detail on the assumptions and our work in this area can be seen on page 14 of this report. Our audit work has not identified any issues in respect of valuation of pension fund net liability to date, however, at the time of writing this report we note that the NAO are liaising with PWC to assist auditors further on their considerations regarding MHCLG's recent consultation on reforms to public sector pension schemes and their proposed amendments to the statutory underpin.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted) The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosures in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. A minor amendment has been made to the Council's disclosure in line with expectations.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
3 Rivers Development Limited	N/A	The balances in relation to the Company continue to grow in terms of work in progress, however as the majority of transactions are inter group they are eliminated on group consolidation. We have reviewed the consolidation process and inter group transactions and have identified no issues with the compilation of the consolidated group accounts. Although not material to the group financial statements, we have further reviewed the impairment of loans to the Company and have found these to be reasonable, in that the council have considered all active projects for impairment and likelihood of these achieving profitable outcomes. On consolidation, an additional £8.159m (£2.171m 2018/19) of work in progress was included on the group balance sheet reflecting development projects in progress at the balance sheet date. We carried out sample testing of this balance and identified no issues. In addition, we carried out a detailed review of the group disclosure requirements, in line with the CIPFA Code and identified no significant issues.	There was no significant impact on the group financial statements following our audit work.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £0.555m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management have not changed their approach to calculate the level of provision required. Appeals have stayed constant over recent years and the Council continues to take a prudent approach.	We have carried out the following work in relation to this estimate: • Reviewed the reasonableness of estimate, and • Reviewed the adequacy of disclosure of estimate in the financial statements. Estimates and judgements in this area are reasonable.	● **Green**
Land and Buildings – Council Housing - £146.6m	The Council owns 3,001 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was c£147m.	We have carried out the following work in relation to this estimate: • Assessed management's expert to ensure suitably qualified and independent, • Assessed the completeness and accuracy of the underlying information used to determine the estimate, • Confirmed there were no changes to valuation method • Assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and • Assessed the adequacy of disclosure of the estimate in the financial statements. Our work in this area remains in progress, however work to date suggests that estimates and judgements in this area are reasonable.	● **Green**

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £43.702m	Other land and buildings comprises c£44m of assets, which are required to be valued at either current market value or depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The Council has engaged the District Valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. c20% of total assets were revalued during 2019/20 with the remainder subject to a desktop review using indices. The valuation of properties valued by the valuer has resulted in a net decrease of £0.135m. The total year end valuation of Other land and buildings was £43.702m, a net decrease of £0.135m from 2018/19 (£43.837m). Based on information provided by the District Valuer Management have included additional uncertainty regarding the impact of the Covid-19 pandemic on asset values. This commentary is set out in note 4 of the financial statements.	We have carried out the following work in relation to this estimate: • Assessed management's expert to ensure suitably qualified and independent, • Assessed the completeness and accuracy of the underlying information used to determine the estimate, • Confirmed there were no changes to valuation method • Assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and • Assessed the adequacy of disclosure of the estimate in the financial statements. • We are proposing to include an emphasis of matter paragraph in our audit opinion to draw the readers attention to the uncertainty disclosed within the financial statements. Our work in this area remains in progress, however work to date suggests that estimates and judgements in this area are reasonable.	Amber

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £58.765m	The Council's total net pension liability at 31 March 2020 is £58.765m (PY £59.379m). The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon County Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.614m net actuarial gain during 2019/20.	See below	**Green**

We have carried out the following work in relation to this estimate:

- Assessed management's expert to ensure suitably qualified and independent,
- Assessed the actuary's roll forward approach taken,
- We have used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below summarises where Mid Devon fall in the acceptable ranges set by PwC:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	
Pension increase rate	1.9%	1.85% - 1.95%	
Salary growth	2.9%	1% above CPI 2.95% - 2.85%	
Life expectancy – Males currently aged 45 / 65	22.9	21.4 - 23.3	
Life expectancy – Females currently aged 45 / 65	24.1	23.7 – 24.7	

- We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate,
- We have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and
- We have reviewed the adequacy of disclosure of the estimate in the financial statements.

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – 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).

Going concern commentary

Management's assessment process	Auditor commentary
Management have carried out a detailed assessment of the Council's ability to continue as a going concern. This process included undertaking a high level cash flow forecast through to September 2021. 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. Importantly management's assessment has also considered the impact of the Covid-19 pandemic and the lost income in the first 3 months of the financial year.	• We have concluded that management's process is adequate, and that the assessment is supported by robust assumptions.
Work performed	**Auditor commentary**
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 (including Covid-19 impact) and cash flow forecasts; • reviewed savings targets over the medium term as part of drawing our VFM conclusion.	• 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	**Auditor commentary**
Following our review we are satisfied with management's assessment of use of going concern basis of accounting.	• 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 of this report provides more commentary regarding the financial challenge faced by the Council and this is impacted by the Covid-19 pandemic.

Other matters for communication

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	Auditor commentary
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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	• 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.
Written representations	• A letter of representation has been requested from the Council. This includes specific representations in relation to: - Assumptions in relation to the impairment of loans to 3 Rivers Development Limited, and all remaining loans are fully recoverable; - The preparation of the Group Accounts on a going concern basis; and - Confirmation of reasons for not processing the unadjusted misstatement set out in appendix C.
Confirmation requests from third parties	• 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. At the time of writing this report we are awaiting 9 investment confirmations totalling £14m.
Disclosures	• Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	• With the exception of the information outstanding at the time of writing this report, all information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, are materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. As part of reviewing the AGS we suggested some areas for improvement which management have addressed in the final version of the document. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. No detailed work is required in this area as the Council is below the thresholds set by the NAO.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Mid Devon District Council in the audit report.

Value for Money

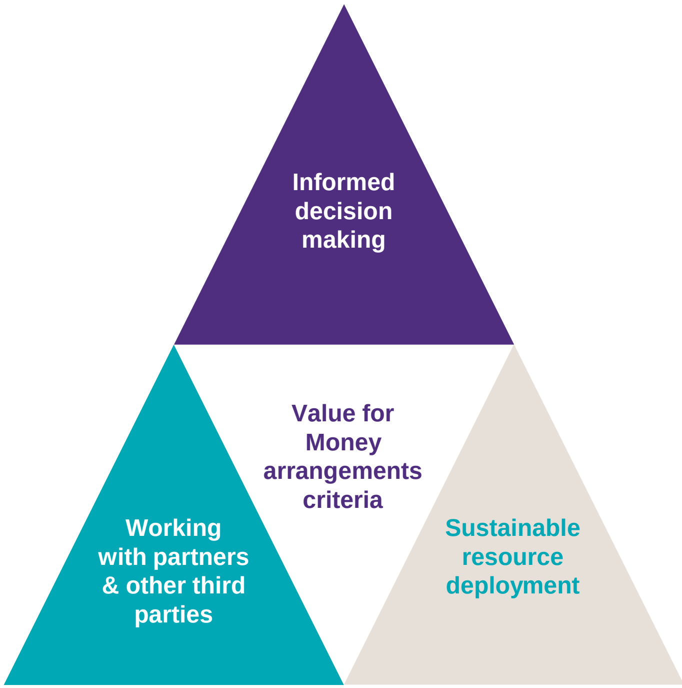
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."

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



Risk assessment

We carried out an initial risk assessment in December 2019 and January 2020 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 28 January 2020.

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 the ongoing funding of 3 Rivers Development Limited;
- Arrangements for monitoring the performance of 3 Rivers Development Limited, and
- Internal Audit’s work on its Group Governance arrangements.

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 on the following pages.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources, except for the matter we identified in respect of Group Governance. We therefore propose to give a qualified 'except for' conclusion.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

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.

Value for Money

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
Financial Sustainability Mid Devon District Council continues to face significant financial challenges over the medium term. The Council is forecasting an overspend of circa £0.243m in 2019/20 and has a funding gap of circa £1.4m through to 2023/24. Through the £1m challenge the Council has identified potential schemes totalling £0.490m against this total. The Council currently has a General Fund Reserve of £2.501m, which is above the approved minimum level of £2.100m. In response to this risk we will review the significant assumptions made in the Council's medium term financial plan and progress towards further closing the funding gap.	Prior to the Covid-19 pandemic, the Council faced a significant financial challenge over the medium term. The latest forecasts set out that through to 2023/24 there is a budget gap of £1.4m. During 2019/20, the Council overspent on the provision of services, against a net revenue budget of circa £10m by £0.232m. The Council have provided clear, transparent, timely and accurate budget monitoring information throughout the year to facilitate decision making. We have reviewed the assumptions and sensitivity analysis undertaken as part of refreshing the medium term financial plan and have found these to be reasonable, pre pandemic. Covid-19 has increased the financial uncertainty over the medium term, with fees and charges being the biggest impacted area, not withstanding the potential impact on Council Tax and Business Rates base in future years. The Council has been working hard to assess the impact of Covid-19. Current estimates are that the impact on fees and charges during 2020/21 will be in the region of £3.5m. This will have a significant impact on the Council's finances and could increase the budget gap over the medium term to around £5m. To date, the Council has received £0.994m of Central Government Funding in relation to offsetting the impact. At present the most challenging year appears to be 2021/22 where there is a pre Covid-19 budget gap of £1.3m. The Council is due to refresh the medium term financial plan in October 2020 and this will be fully reflective of Covid-19.	Based on the work completed we have concluded that the Council has adequate arrangements in place to deliver financial sustainability. It is clear that the Council has responded positively to the challenge presented by Covid-19 and are adequately monitoring and assessing the current and future impacts on the Council's finances. The financial year 2021/22 will see perhaps the peak of the challenge. The Council's current MTFP shows a budget gap of £1.3m in setting a balanced budget for 2021/22. This year is also likely to see further impact of the pandemic. It is therefore business critical that officers and members take immediate action to reduce this gap. **Management response** The Council is currently in the process of reviewing its expenditure in 2020/21 and will be presenting an emergency budget to Cabinet in September responding to the Covid 19 crisis. Senior management have been tasked with looking at all short term budget savings during the remainder of 2020/21, that will not have an adverse impact on service delivery, and then begin to build up savings ideas for 2021/22 to be considered by the Cabinet and wider membership in meetings over the next few months.

Value for Money (continued)

Significant risk

Group Governance

In 2018/19 we raised a number of recommendations in relation to the governance arrangements surrounding 3 Rivers Development Limited. These were: Improve linkages between the Company Business Plan and the Council's Treasury Management Strategy (TMS) and Capital Programme, revisit the business plan to ensure it is accurate and transparent, revisit governance arrangements and to ensure that performance reporting for the company clearly links to the agreed business plan.

We have noted through our planning work that the TMS mid year review ties into the capital programme and revised company cashflow forecast and capital programme. The business plan is due to be refreshed in Feb 2020. The next financial performance report is due to cabinet in Feb 2020. The last report was taken to Cabinet in June 2019 (8 months). In order to mitigate the conflicts of interest the Council have put in place an officer programme board. This is also to challenge business plans and to flag any potential issues to cabinet. We have confirmed that these meetings are occurring, however we do note that the Deputy Section 151 officer who is integral to this process is leaving the Council. In addition another key officer who monitors the loans to the company has also left the Council, although replaced.

This presents a further challenge to the Council in relation to capacity. This area remains a significant risk. We have also noted that Internal Audit are completing follow up work around governance and controls and that an external review of the company has been commissioned.

Findings

It is clear that some progress has been made on arrangements. Key areas of improvement have been:

- Increased transparency of the business plan, although this remains to be approved in 2019/20;
- Improved consistency between the company's Business Plan and the Council' Treasury Management Strategy and Capital Programme;
- The introduction of an Officer Programme Board to minimise the impact of conflicts of interest, and the
- Commissioning of external advice regarding the overall viability of the Company and the Governance arrangements.

As part of our follow up work we have noted the following areas where action has not been taken against the recommendations we raised in 2018/19:

- Approval of the revised Business Plan (although as set out above this has been updated);
- Improvements in the clarity of performance reporting. The last report that went to Cabinet was June 2019. The report due in early 2020 was not presented and we have therefore not be able to assess completion of this recommendation.

The Council commissioned external reports during 2019/20. The aim of these was to assess the financial viability of the company and the governance arrangements in place. We have reviewed the findings of these reports as well as the follow up work completed by Internal Audit and it is clear that there remains a significant amount of work to be completed in order to address the concerns over governance arrangements. In total, there were 17 recommendations raised by these external reports and approved by Cabinet. Arguably the most critical of these is:

'That 3 Rivers Developments Ltd suspends any new site purchases and the commissioning of work relating to sites where construction has yet to be started, until the appointment of new Directors, in accordance with recommendations 3. and 4. has been completed and their subsequent updated business plan has been approved'. For clarity recommendations 3 and 4 relate to the recruitment of a Finance Director with construction industry experience to replace Mr Jarrett, as soon as possible, and a suitable Director or Non-Executive Director with regional property development experience to complement and strengthen the existing board arrangements.

Conclusion

On this basis we have concluded that despite some improvements in responding to previous audit recommendations, there remain weaknesses in the arrangements for the year ended 31 March 2020 for:

- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions;
- Acting in the public interest, through demonstrating and applying the principles and values of sound governance; and
- Managing risks effectively and maintaining a sound system of internal control.

We therefore propose to issue an qualified 'except for' VFM conclusion.

Management response

Both the Council and the Company are addressing all of the recommendations agreed at the Cabinet meeting on the 9 July 2020, which emanate from the 2 external reports that were commissioned. Leadership Team and some members of the Cabinet are already making progress with an action plan to take this process forward in a timely fashion.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

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. The following non-audit services were identified, as well as the following threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	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 £44,229 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 all mitigate the perceived self-interest threat to an acceptable level.
Housing Benefit Certification	12,666	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 £12,666 in comparison to the total fee for the audit of £44,429 and in particular is not significant 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 all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified 2 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 2020/21 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
● High	The financial year 2021/22 will see perhaps the peak of the Council's financial challenge. The Council's current MTFP shows a budget gap of £1.3m in setting a balanced budget for 2021/22. This year is also likely to see further impact of the pandemic in relation to the impact on the Council Tax and Business rates base.	We recommend that officers and members take action in 2020 to reduce the current budget gaps in 2020 through to 2022.. **Management response** The Council is currently in the process of reviewing its expenditure in 2020/21 and will be presenting an emergency budget to Cabinet in September responding to the Covid 19 crisis. Senior management have been tasked with looking at all short term budget savings during the remainder of 2020/21, that will not have an adverse impact on service delivery, and then begin to build up savings ideas for 2021/22 to be considered by the Cabinet and wider membership in meetings over the next few months.
● High	Within 2019/20 the Council have commissioned a number of external reviews in relation to 3 Rivers Development Limited which have identified 17 recommendations for improvement.	We recommend that the Council address each recommendations and ensure that the business plan is revised approved accordingly. **Management response** Both the Council and the Company are addressing all of the recommendations agreed at the Cabinet meeting on the 9 July 2020, which emanate from the 2 external reports that were commissioned. Leadership Team and some members of the Cabinet are already making progress with an action plan to take this process forward in a timely fashion.

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 2018/19 financial statements, which resulted in 6 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note 3 are still to be completed. It should be noted that the 3 outstanding recommendations will be addressed through the implementation of the recommendations agreed by Cabinet following the independently commissioned reviews.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Our testing of expenditure identified income items that had been routinely coded to expenditure. Whilst we were able to demonstrate that there is no significant impact there is a risk that income and expenditure could be understated. We recommend that the Council review procedures for coding income to ensure that income items are coded and classified correctly.	Further checks have already been put in place. We have identified no similar issues in 2019/20.
✓	The Group continues to evolve and grow. As transactions become more complex there is a need to ensure consolidation working papers clearly show the consolidation adjustments. Without this clarity there is a risk that consolidation adjustments are not processed. We recommend that the Council adapt one working paper that details all Group consolidation adjustments.	The Council has now improved their working papers in this area.
✓	There are no clear links between the 3 Rivers Developments Limited Business Plan and the Council's own Capital Programme and Treasury Management Strategy. The Council should ensure that the Treasury Management Strategy fully reflects the 3 Rivers Developments Limited Business Plan (revised) and where possible there are clear links to the Capital Programme.	As set out in the VFM section of this report there are clear improvements in line with this recommendation.
X	The 3 Rivers Developments Limited Business Plan contains inaccuracies and is not transparent. We recommend that the Business plan is revisited to ensure accuracy and transparency. We further recommend that all performance reports taken to Cabinet should clearly link back to the approved business plan and should be on a scheme by scheme basis.	Whilst we have reviewed an updated business plan this has not yet been approved by Cabinet. The business plan will require update following the implementation of the recommendations set out in the independently commissioned reviews.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The Council has put in place mitigations to reduce the risks around conflicts of interest. This is with particular reference to the Council's S151 officer on the board of 3 Rivers Developments Limited. Whilst it is considered appropriate to have Council representation on the company board to enable it to influence the activity of the company, it is important that the company board is allowed to deliver the strategic and operational plans of the company without excessive interference from the council. It is equally important that appropriate governance structures are established to safeguard the Council from excessive risk taking or poor performance and that appropriate governance arrangements are in place to allow the Council to hold the company to account where financial and performance targets are not achieved by the company. We recommend that the Council formally considers the adequacy of the current mitigations to determine whether additional governance arrangements need to be put in place to address this risk.	Whilst progress has been made against this recommendation it is superseded by the recommendations raised by the independently commissioned reviews.
X	The Council have started reporting to Cabinet the 3 Rivers Developments Limited's performance. The first performance report was taken to the January 2019 cabinet. From reviewing this report It was not clear how this report linked to the original business plan, and what the expected milestones were and how the company is performing against these. We recommend that future reports should link clearly back to approved schemes as set out in the 3 Rivers Developments Limited business plan and should contain an update against expected milestones.	The last performance report to be taken to Cabinet was June 2019. A performance report was due in January 2020 however due to the externally reviews being undertaken this was not delivered.

Assessment

✓ Action completed

X Not yet addressed

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Reason for not adjusting
1	**Adjusting post balance sheet event** In July 2020, the Council has reached a settlement agreement on a longstanding contractual dispute to the value of c£0.600m. As this matter relates to events present prior to 31 March 2020, this settlement meets the definition of an adjusting post balance sheet event and as such should be reflected in the 2019/20 statement of accounts.	Management have concluded that the impact of this settlement is not material and therefore do not propose to adjust the 2019/20 financial statements. We are of the view that there is sufficient evidence to indicate that a liability is probable, and the impact is not material.

Audit adjustments (continued)

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

At the time of writing this report there are no adjusted misstatements.

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements

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	Adjusted?
Prior Period Adjustment	The draft financial statements contained a number of restatement headings. The majority of these have now been removed with the exception being the Group MIRS which was restated due to a computational error. As this was material (and to a primary statement) this triggered the requirement for a full Prior Period Adjustment disclosure note.	✓
Other payables and receivable	The draft financial statements included material payables and receivables described as other. Where this is the case the Code requires that narrative be included under the note to explain what makes up these amounts.	✓
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.	✓

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit Scale Fee	£36,729	TBC
PSAA approved variation	£7,500	TBC
Total audit fees (excluding VAT)	**£44,429**	**TBC**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Housing Benefit Certification (18/19 billed 19/20)	£14,685	£12,666
Certification of Housing capital receipts grant (18/19 billed 19/20)	£1,500	£1,500
Total non- audit fees (excluding VAT)	**£16,185**	**£14,166**

The proposed indicative fee of £44,429 has been approved by PSAA. We set out in our audit plan how the Financial Reporting Council's has set its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This, coupled with the recent impact of Covid 19 and the time taken in managing the audit in a more remote working environment, has clearly impacted our work and we will need to review the actual audit inputs required at the conclusion of our work, to assess any fee implications arising from this. We will advise the Chief Finance Officer and the Audit Committee of the final position and any final variations to the fees approved in principle by PSAA, once reviewed.

The fees reconcile to the financial statements. The financial statements do include £5,000 in relation to prior year additional fees. These were reported in the 2018/19 Audit Findings Report.

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