



The Annual Audit Letter for Mid Devon District Council

Year ended 31 March 2020

7 January 2021



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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 subsidiaries (the group) for the year ended 31 March 2020.

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 11 August 2020..

Our work

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.

Materiality	We determined materiality for the audit of the Council's financial statements to be £967,410, which is 1.8% of the Council's gross cost of services. Group materiality was also set at £967,410. The group and Council's materiality are set at the same value as group expenditure is not significantly higher than the Council's.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's financial statements (including group accounts) on 26 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property investment funds held within the Devon County Pension Fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
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 except for its arrangements in relation to its commercial activities with 3 Rivers Development Ltd. We therefore qualified our value for money conclusion in our audit report to the Council on 26 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Mid Devon District Council in accordance with the requirements of the Code of Audit Practice on 26 November 2020.

Working with the Council

It has been a challenging year due to the impact of Covid-19.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we gained sufficient audit evidence for the entries within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team.

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 system has facilitated this but inevitably the remote working has impacted on delivery with additional resources being necessary to complete the work in accordance with the new extended reporting timetable.

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
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and group 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 financial statements to be £967,410, which is 1.8% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £967,410, which is 1.8% of the Council's gross cost of services. 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 £48,400, 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 to check it is consistent with our understanding of the Council 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 was based on a thorough understanding of the Council and 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 Financial Statements

Significant Audit Risks

These are the 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
<p>Covid-19</p> <p>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;</p> <ul style="list-style-type: none"> - 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. <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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. • 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. 	<p>Our audit work did not identify any significant issues in respect of Covid-19 specific risks.</p> <p>This is not to say that there was not an impact. The Council's financial statements highlighted a material uncertainty in relation to land and building valuations.</p> <p>In addition on receipt of the letter of assurance from the Devon County Pension Fund Auditor, an additional material uncertainty was identified in relation to the property investment funds that form part of the Pension Fund Assets and Mid Devon District Council's share of these assets. The draft financial statements were amended to reflect this uncertainty.</p> <p>The financial challenge into the medium term has also increased due to the lost income, additional costs and the uncertainty of future government funding in respect of Covid-19.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>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.</p> <p>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.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> 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. 	<p>Our work against this risk did not identify any significant issues.</p>
<p>Improper revenue recognition</p> <p>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.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined at the planning stage that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Mid Devon District Council, mean that all forms of fraud are seen as unacceptable <p>We reviewed material revenue transactions as part of our audit and we were satisfied that there had been no changes of circumstance requiring us to alter our proposed strategy with regards to revenue recognition in the latter part of the year.</p> <p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>	

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>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</p> <p>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, there 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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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. 	<p>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.</p> <p>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.</p>
<p>Valuation of land and buildings (Rolling revaluation)</p> <p>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.</p> <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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. 	<p>As highlighted previously in this report, we included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and building (and investment property) valuations at the year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in their final valuation report. Officers reflected this in note 4 of the financial statements. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by covid-19.</p> <p>This is in line with other local councils.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£86 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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; • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • 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. 	<p>Our work has not identified any issues in respect of valuation of the net liability.</p> <p>As highlighted previously in this report, on receipt of the letter of assurance from the Devon County Pension Fund Auditor, an additional material uncertainty was identified in relation to the property investment funds that form part of the Pension Fund Assets and Mid Devon District Council's share of these assets.</p> <p>The Council amended the draft financial statements to include a material uncertainty in note 4 of the revised financial statements.</p> <p>As highlighted previously in this report, we included an emphasis of matter paragraph in the audit opinion to reflect this uncertainty. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19.</p> <p>This is in line with other local councils.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements (including group accounts) on 26 November 2020.

Preparation of the financial statements

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. The finance team responded promptly and efficiently to our queries during the course of the audit and worked closely with the Audit Team when finalising queries.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 11 August 2020.

Annual Governance Statement and Narrative Report

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

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 26 November 2020.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Mid Devon District Council in accordance with the requirements of the Code of Audit Practice on 26 November 2020.

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 April 2020 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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in August 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified overleaf, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>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.</p>	<p>As part of our work we have reviewed the significant assumptions made in the Council's medium term financial plan and progress towards further closing the funding gap.</p>	<p>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 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.</p> <p>Based on the work completed we 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.</p>

Value for Money conclusion

Value for Money Risks (continued)

Risks identified in our audit plan	Findings and conclusions
<p>Group Governance</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>It is clear that some progress has been made on arrangements. Key areas of improvement have been:</p> <ul style="list-style-type: none"> • 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. <p>As part of our follow up work we noted the following areas where action has not been taken against the recommendations we raised in 2018/19:</p> <ul style="list-style-type: none"> • 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. <p>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:</p> <p>'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.</p> <p>(continued)</p>

Value for Money conclusion

Value for Money Risks (continued)

Risks identified in our audit plan	Findings and conclusions
<p>Group Governance (continued)</p>	<p>On this basis we 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:</p> <ul style="list-style-type: none"> • 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. <p>We therefore propose to issue an qualified 'except for' VFM conclusion.</p>

A. Reports issued and fees – Mid Devon District Council

Audit fees 2019/20	Proposed fee
Council scale fee	36,729
Additional proposed audit fee at planning stage	7,500
Total proposed audit fees (excluding VAT) at planning	£44,229
Further additional fees proposed at completion	6,634
Total proposed audit fees (excluding VAT) on completion	£50,863

Reports issued

Report	Dated issued
Audit Plan	28 January 2020
Audit Findings Report	11 August 2020
Annual Audit Letter	7 January 2021

The Mid Devon District Council Audit Plan date 28 January 2020 included £7,500 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £44,229.

Since the presentation of the audit plan and subsequent letter, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,634 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £50,863. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Appendix A – Mid Devon District Council Audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	36,729	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New Accounting Standards	1,500	Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in. You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust.
Revised planning fee	44,229	
Covid-19	6,634	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including managing around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	50,863	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefits	£12,666
- Pooling of Housing Capital receipts	£5,000
Non-Audit related services	
- None	Nil

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 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 Council's auditor and have ensured that appropriate safeguards are put in place.

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



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