



Our ref: MDDC Estimates/JM/GH 202021

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24 February 2021

Dear Andrew

Mid Devon District Council Financial Statements for the year ended 31 March 2021

As part of our audit of the Authority's financial statements for the year ended 31 March 2021, we need to update our understanding of your accounting estimates, including all the key accounting estimates that will be included in the Authority's financial statements this year. We do this to maintain our understanding of Mid Devon District Council and to comply with International Auditing Standards (ISAs (UK)), including the revised standards that apply to our 2020/21 audit for the first time.

International Auditing Standards place obligations on auditors to document their understanding of the entity and its environment, including the entity's internal control, in identifying and assessing the risks of material misstatement in the financial statements. [ISA \(UK\) 540 \(Revised\) Auditing Accounting Estimates and Related Disclosures](#) (revised in December 2018) is effective for audits of financial statements for periods beginning on or after 15 December 2019. The revised standard requires auditors to understand a number of matters related to your key accounting estimates (as set out in section 13 of the standard).

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the accompanying schedules. A separate schedule is included for each key accounting estimate that we have identified. If you are aware of any other material accounting estimates that will be included in your financial statements could you please add and complete an additional schedule for that estimate.

I would be grateful for your responses, if possible, by the 31 March 2021 to help inform our risk assessment and planning of our 2020/21 audit of the Authority's financial statements.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

A handwritten signature in blue ink that reads "Julie Masci".

Julie Masci
Engagement Lead

Property, plant, and equipment valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>The risk around the uncertainty of the valuation of the assets due to Covid-19 remains although is greatly reduced from last year.</p> <p>No additional action taken – we continue to rely on the professional valuer’s assessment.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Assets are valued on a rolling 5-year rota. Each year, a different selection of assets are valued, so that that full portfolio is valued every 5-years. The remaining assets are reviewed to ensure no material change has taken place.</p> <p>No changes were made.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>We rely on the professional valuer’s assessment.</p> <p>No changes were made.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>All relevant information is provided to the valuer in respect of the assets to be fully revalued. If any additional valuations are requested on specific assets from the remainder of the portfolio, all relevant information would again be provided.</p> <p>No changes were made.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Only the expertise of the valuer was procured. Any material movement in valuations is challenged.</p> <p>The corporate manager for property is consulted upon the remaining assets to ensure that future usage/plans are understood when reviewing the remainder of the portfolio.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The valuer is professionally trained and remains RICS affiliated.</p> <p>As stated above, any material movement in valuations is challenged with the valuer, and where necessary, greater information is provided, or greater explanation of the variation is provided.</p>
<p>7. In management’s opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes, the use of the district valuer is considered the most appropriate, professional, independent, assessment of the assets valuation.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>The estimate uncertainty has reduced from this time last year when the Covid-19 Pandemic was just taking hold and it was less clear what impact it might have on property valuations. Now a year later, and hopefully coming towards the safe end to restrictions, a greater</p>

	understanding of the impact on the property market in known. It is however possible that particular assets may have become less desirable, over and above any estimated adjustment made in the valuation. However, it is not anticipated that any material variation will come to fruition imminently, therefore no additional action is planned.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The estimate is not considered to be materially sensitive given the process of reviewing approximately 20% of assets annually, with the remainder reviewed for material variation.

Council Dwelling valuation estimate

Question	Management response
	Assumption that HRA valuation follows same process as GF asset valuation. Is this correct??? Yes
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The risk around the uncertainty of the valuation of the assets due to Covid-19 remains although is greatly reduced from last year. No additional action taken – we continue to rely on the professional valuer's assessment.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Assets are valued on a rolling 5-year rota. Each year, a different selection of assets are valued, so that that full portfolio is valued every 5-years. The remaining assets are reviewed to ensure no material change has taken place. No changes were made.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	We rely on the professional valuer's assessment. No changes were made.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	All relevant information is provided to the valuer in respect of the assets to be fully revalued. If any additional valuations are requested on specific assets from the remainder of the portfolio, all relevant information would again be provided. No changes were made.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Only the expertise of the valuer was procured. Any material movement in valuations is challenged. The corporate manager for property is consulted upon the remaining assets to ensure that future usage/plans are understood when reviewing the remainder of the portfolio.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The valuer is professionally trained and remains RICS affiliated. As stated above, any material movement in valuations is challenged with the valuer, and where necessary, greater information is provided, or greater explanation of the

	variation is provided.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, the use of the district valuer is considered the most appropriate, professional, independent, assessment of the assets valuation.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The estimate uncertainty has reduced from this time last year when the Covid-19 Pandemic was just taking hold and it was less clear what impact it might have on property valuations. Now a year later, and hopefully coming towards the safe end to restrictions, a greater understanding of the impact on the property market is known. It is however possible that particular assets may have become less desirable, over and above any estimated adjustment made in the valuation. However, it is not anticipated that any material variation will come to fruition imminently, therefore no additional action is planned.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The estimate is not considered to be materially sensitive given the process of reviewing approximately 20% of assets annually, with the remainder reviewed for material variation.

Depreciation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	MDDC uses a RICS qualified Valuer at the VOA for its valuations, where we have a long-standing professional relationship. 1/5 of its portfolio has a full valuation & 4/5 is indexed to local factors. We obtain explanations for any movement in value of +/- 5% & where any asset lives move by > 2 years.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	See Q1 above No change in 2020/21

<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>See Q1 above</p> <p>No change to assumption in 2020/21</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>FAR updated for any changes, acquisitions/disposals prior to valuation. Responsible managers review assets in the FAR each year – any changes are reflected prior to valuation</p> <p>No change for 20/21</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Depreciation based on valuations provided by RICS qualified valuer</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>See Q1 & Q4 above</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes please see Q1 & Q4 above</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No change for 2020/21</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Note 4 SOA – Consideration if Asset life reduces by 1yr, would result in an increase of £224k in Depreciation</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>See Q9 above – movement would not be material in terms of our asset base</p>

Valuation of defined benefit net pension fund liabilities

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>The impact of Covid-19 on the valuation of the fund assets and liabilities. The next valuation is due 31 March 2022.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the</p>	<p>In respect of the liabilities, the actuary has developed a revised model for estimating mortality rates which they recommend all authorities adopt. We have reviewed and will adopt this model.</p>

reason for the change?	
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The assumptions used result from historic discussions with the Devon Pension Fund administrators and the actuary. There is no change to the assumptions to aid comparability.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The data is provided by Barnett Waddingham, an independent firm of actuaries. There were no changes to the source data.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Only the expertise of Barnett Waddingham was procured, through a tender process held by Devon County Council on behalf of the whole pension fund.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The main relationship with Barnett Waddingham is through Devon County Council, the Pension Fund administrators.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, the use of a professional, independent actuary is considered the most appropriate, robust way of calculating this estimate.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Covid-19 will have an influence on the estimate uncertainty, which we believe will be accounted for as much as possible through the adoption of the new review mortality calculation model.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The estimation of the defined benefit obligations is sensitive to the actuarial assumptions however any financial impact will be felt across many years rather than in a single transaction and will therefore also depend on many other future factors. Therefore, it is not expected that any material adjustment is required.

Accruals of income and expenditure estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Covid-19 has had a material impact on the Council's income. However this has been largely offset through a combination of un-ringfenced grant and the new Sales, Fees and Charges Compensation Scheme. Therefore, there is minimal alteration required to the accrual process

	<p>– services will estimate their lost income and accrue for it via the SFC claim.</p> <p>The Revenue and Benefits team have also processed significantly more payments than normal due to the government's measures to protect businesses and vulnerable individuals. Again though, most in-year payments have been processed, therefore leaving little change to the accruals required.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>A deminimis level of £10k is adopted to minimise the workload for trivial / non-material accruals. The accounting system identifies outstanding transactions for which accruals are required via reviewing PO's and GRN. Services then review the postings to ensure they are accurate/relevant.</p> <p>There are no changes from previous years.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>The system is largely automated with adjustments made where appropriate. The deminimis level reflects the convention of reporting budget variances to Cabinet.</p> <p>There are no changes from previous years.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>See the response to Section 1 above.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Systems knowledge is required in order to create the original accrual posting, with service knowledge then used to review/amend.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Using the accounting system ensures a robust list of all accruals is created, with service management agreeing/amending.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes, this process is felt to be effective and efficient.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>The estimation uncertainty should be minimal given the system generated list and management review. Therefore there should be no material variance requiring action.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>The sensitivity is not considered material as the accruals are mainly relatively small transactions.</p>

Provisions estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Covid-19 could have a material impact on the Council's ability to collect income, therefore the Bad Debt Provisions in particular will be fully reviewed.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The method for calculating provisions has been developed over a number of years using historical data and recovery rates. It is likely that assumed collection rates will be adjusted to reflect the potential impact of Covid-19.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The assumptions are reviewed and updated based upon latest data, i.e. collection rates. It is likely that assumed collection rates will be adjusted to reflect the potential impact of Covid-19.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The data is largely automated from the systems (accounting and revenues). A deminimis level is adopted to ensure that time, effort and money is not wasted chasing low value debts.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Only the professional views of the Council's staff.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	In a normal year, the movement year-on-year of the provision, and the percentage of bad debt is used to assess whether progress is being achieved.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, there is little alternative option and it's questionable whether any additional value could be gained by adding to the controls.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The estimation uncertainty should be minimal given the system generated list and management review. Therefore there should be no material variance requiring action.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Generally the sensitivity is not considered material as the accruals are mainly relatively small transactions. However, Covid-19 could alter this.

Level 2 Investments

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>The only level 2 investment held during 2020/21 is the CCLA Local Authorities' Property Fund.</p> <p>The pandemic will have had a bearing on the value of properties held by the fund, however the fund is made up of a diverse portfolio of properties to limit this exposure. Some properties, such as retail units, may have decreased in value over recent months, but this is potentially offset by increases in others. With the largest risk of material accuracy being the valuation of property, the diversity of the fund and valuations within an active market help to mitigate this.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>The bid price quoted by CCLA is used to calculate the fair value of the investment. No further models or estimates are used in arriving at fair value.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>N/A – see above.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Data provided by CCLA.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Estimates are provided by CCLA who have some in-house expertise and would procure services where required.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Reports are received monthly from CCLA with an estimated fund value. Any large variances from one month to the next would be queried with CCLA and further information requested if deemed necessary.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>The fund is actively managed by CCLA, who give reassurance over the management of risk which reduces estimation uncertainty. Performance is also reviewed by the Local Authorities' Mutual Investment Trust, who are a fully independent trustee.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>The quoted bid price has been used to value the investment each year since first buying into the fund. Taking this consistent approach ensures estimation uncertainty is kept to a minimum.</p>

10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The sensitivity of estimates in the valuation of the property fund will have been considered by CCLA in calculating a bid value, and so no further consideration is required by MDDC.
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Level 3 Investments

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	N/A – no level 3 investments held during 2020/21
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	
8. Were any changes made to the key control activities this year? If so please provide details.	
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	

<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	
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