

# The Audit Findings for Mid Devon District Council

**Year ended 31 March 2021**

Mid Devon District Council

13 September 2021



# Contents



## Your key Grant Thornton team members are:

### Julie Masci

Director

T: 029 2034 7506

E: julie.masci@uk.gt.com

### Grace Hawkins

Senior Manager

T: 029 2034 7542

E: grace.e.hawkins@uk.gt.com

### Courtney Aylott

In-Charge

T: 0117 305 7809

E: courtney.j.aylott@uk.gt.com

## Section

1. Headlines
2. Financial statements
3. Value for money arrangements
- 4 Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

## Page

- 3
- 5
- 18
- 20

- 22
- 23
- 24
- 27
- 28

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

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

Name : Julie Masci  
For Grant Thornton UK LLP  
Date : 13 September 2021

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# 1. 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 2021 for those charged with governance.

## 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 remotely during June - September. Our findings are summarised on pages 4 to 17.

We have identified adjustments to the financial statements that are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E), subject to the following outstanding matters and subsequent review;

- receipt and review of the Pension Fund Auditor Assurance Letter
- receipt and review of evidence from the External Valuer in relation to the valuation of Land, Buildings and Council Dwellings
- receipt and review of grant evidence
- receipt and review of group sample evidence
- receipt and review of proposed adjustments in relation to pension charges
- receipt of management representation letter and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay has been sent to the Deputy Chief Executive and Chair of Audit Committee. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks of significant weaknesses in respect of Financial Sustainability and Group Governance. Our work on these risks is underway and an update is set out in the value for money arrangements 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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021.

## Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

## 2. Financial Statements

### 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 will be discussed with management and the Audit Committee.

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 and group's internal controls environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each 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 Revenue, Cost of Sales, Debtors, Impairment and Work in Progress balances of 3 Rivers Developments Ltd were required, which was completed by Grant Thornton.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 21 September 2021, as detailed in [Appendix E], subject to the outstanding items outlined on page 3.

#### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remotely accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely and access to key data from Council staff.

## 2. Financial Statements



### Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan in June 2021.

We detail in the table here our determination of materiality for Mid Devon District Council.

|  | Group Amount (£) | Council Amount (£) | Qualitative factors considered   |
|--|------------------|--------------------|--|
| Materiality for the financial statements | £840,000         | £810,000           | Specific risks and sensitivities at the Council including increased scrutiny around 3 Rivers Development Limited and the appointment of new senior finance officers involved with the preparation of accounts. |
| Performance materiality                  | £588,000         | £567,000           | Low level of deficiencies in control environment and quality of financial statements in prior years.   |
| Trivial matters                          | £42,000          | £40,500            | Based on materiality.  |





## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan  | Commentary  |
|---|---|
| <p><b>Management override of controls</b></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 Authority 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 risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals;</li> <li>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• Tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>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.</p> |

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Valuation of Land and Buildings and Council Dwellings (Rolling Revaluation)

The group revalue its Land and Buildings and Council Dwellings 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 (£194 million as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of Land and Buildings and Council Dwellings, particularly upward and downward revaluations as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

### Commentary

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 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;
- Reviewed the process for reconciling the Council Dwellings to the housing rent database
- Challenged the archetype classification and application of appropriate beacons to the Council Dwellings.
- 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.

Our work in this area is currently in progress, no issues have been identified to date.

#### Group Revenue

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

For Mid Devon District Council Group, we have concluded that the greatest risk of material misstatement relates to Group Revenue. We have therefore identified the occurrence and accuracy of 3 Rivers trading income as a significant risk, which is one of the most significant assessed risks of material misstatement, and a key audit matter.

We have rebutted this presumed risk for the revenue streams of the Authority because:

- Other income streams are primarily derived from grants or formula based income from Central Government and tax payers; and/or
- Opportunities to manipulate revenue recognition are very limited.

We have:

- Evaluated the group's accounting policy for recognition of income for appropriateness;
- Gained an understanding of the group's system for accounting for income and evaluate the design of the associated controls;
- Agreed, on a sample basis, amounts recognised as income in the financial statements to supporting documents.

Our work in this area is currently in progress, no issues have been identified to date.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Valuation of Pension Fund Net Liability

The Authority'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 and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

### Commentary

We have:

- Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate 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 Authority's pension fund valuation;
- Assessed the accuracy and completeness of the information provided by the Authority 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 performed any additional procedures suggested within the report; and
- Obtained assurances from the auditor to the 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.

Our work in this area is currently in progress. One issue has been identified to date in relation to the incorrect treatment of advance pension secondary contributions. This is outlined in more detail within Appendix C.

## 2. Financial Statements - Group audit findings

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

| Component                  | Individually Significant? | Level of response required under ISA (UK) 600 | Risks identified   | Commentary   |
|----------------------------|---------------------------|---|--|--|
| Mid Devon District Council | Yes                       |   | <ul style="list-style-type: none"> <li>See significant risks identified on Page 7 and Page 9</li> </ul>  | Full scope audit performed by Grant Thornton UK LLP  |
| 3 Rivers Developments Ltd  | No                        |   | <ul style="list-style-type: none"> <li>We have identified the occurrence and accuracy of 3 Rivers trading income as a significant risk.</li> <li>The majority of the transactions of the company are with the Council and will be reviewed as part of the intra-group consolidation adjustments.</li> <li>3 Rivers Development Ltd is not subject to external audit</li> </ul> | <p>As 3 Rivers Development Ltd is not subject to external audit we are not able to rely upon the work of another auditor. We will therefore perform the following procedures to gain our assurance:</p> <ul style="list-style-type: none"> <li>Agree the overall consolidation including alignment of accounting policies</li> <li>Agree consolidation adjustments, and</li> <li>Audit classes of transactions that remain material after consolidation adjustments.</li> </ul> <p>Our work in this area is ongoing. One recommendation has been raised within Appendix A.</p> |

### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate       | Summary of management's approach   | Audit Comments  | Assessment |
|---|--|---|------------|
| Land and Building valuations – £42.602m | <p>Other land and buildings comprises £22 million of specialised assets such as leisure centres and public conveniences, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£20.7 million) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the District Council to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis. c20% of total assets were revalued during 2020/21 with the remainder subject to a desktop review using indices.</p> <p>The total year end valuation of land and buildings was £42.602m, a net decrease of £1.1m from 2019/20 (£43.702m).</p> | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>Revised ISA540 requirements in Guidance Note;</li> <li>Assessed management's expert to ensure suitability qualified and independent;</li> <li>Assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>Assessed the appropriateness of any alternative site assumptions;</li> <li>Confirmed there were no changes to the valuation method;</li> <li>Assessed the consistency of the estimate using the Gerald Eve report; and</li> <li>Assessed the adequacy of disclosure of estimate in the financial statements.</li> <li>Reviewed the process for reconciling the Council Dwellings to the housing rent database and challenged the archetype classification and application of appropriate beacons to dwellings.</li> </ul> <p>Our work in this area is currently in progress, no issues have been identified to date.</p> | <b>TBC</b> |

### Assessment

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

## 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate                | Summary of management's approach   | Audit Comments  | Assessment |               |           |            |               |      |               |   |                       |       |               |   |               |       |               |   |  |              |                            |   |  |              |                            |   |     |
|--|--|---|------------|---------------|-----------|------------|---------------|------|---------------|---|-----------------------|-------|---------------|---|---------------|-------|---------------|---|--|--------------|----------------------------|---|--|--------------|----------------------------|---|-----|
| <b>Net pension liability – £75.401m</b>          | <p>The Council's total net pension liability at 31 March 2021 is £75.401m (PY £58.765m). The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the Devon County Fund. A full actuarial valuation is required every three years.</p> <p>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 £16.636m net actuarial loss during 2020/21.</p> | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>Assessed management's expert to ensure suitably qualified and independent;</li> <li>Assessed the actuary's approach taken, detail work undertaken to confirm reasonableness of approach;</li> <li>Used PwC as auditors expert to assess actuary and assumptions made by actuary:</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> </thead> <tbody> <tr> <td>Discount rate</td><td>2.0%</td><td>1.95% - 2.05%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.80%</td><td>2.80% - 2.85%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.80%</td><td>3.80% - 3.85%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>24.0<br/>22.6</td><td>21.9 - 24.4<br/>20.5 – 23.1</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>25.4<br/>23.9</td><td>24.8 – 26.4<br/>23.3 – 25.0</td><td>●</td></tr> </tbody> </table> <ul style="list-style-type: none"> <li>Gained assurance over the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>Gained assurance over the reasonableness of the Council's share of LGPS pension assets; and</li> <li>Reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our work in this area is currently in progress, no issues have been identified to date.</p> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.0% | 1.95% - 2.05% | ● | Pension increase rate | 2.80% | 2.80% - 2.85% | ● | Salary growth | 3.80% | 3.80% - 3.85% | ● | Life expectancy – Males currently aged 45 / 65 | 24.0<br>22.6 | 21.9 - 24.4<br>20.5 – 23.1 | ● | Life expectancy – Females currently aged 45 / 65 | 25.4<br>23.9 | 24.8 – 26.4<br>23.3 – 25.0 | ● | TBC |
| Assumption                                       | Actuary Value  | PwC range   | Assessment |               |           |            |               |      |               |   |                       |       |               |   |               |       |               |   |  |              |                            |   |  |              |                            |   |     |
| Discount rate                                    | 2.0%   | 1.95% - 2.05%   | ●          |               |           |            |               |      |               |   |                       |       |               |   |               |       |               |   |  |              |                            |   |  |              |                            |   |     |
| Pension increase rate                            | 2.80%  | 2.80% - 2.85%   | ●          |               |           |            |               |      |               |   |                       |       |               |   |               |       |               |   |  |              |                            |   |  |              |                            |   |     |
| Salary growth                                    | 3.80%  | 3.80% - 3.85%   | ●          |               |           |            |               |      |               |   |                       |       |               |   |               |       |               |   |  |              |                            |   |  |              |                            |   |     |
| Life expectancy – Males currently aged 45 / 65   | 24.0<br>22.6   | 21.9 - 24.4<br>20.5 – 23.1  | ●          |               |           |            |               |      |               |   |                       |       |               |   |               |       |               |   |  |              |                            |   |  |              |                            |   |     |
| Life expectancy – Females currently aged 45 / 65 | 25.4<br>23.9   | 24.8 – 26.4<br>23.3 – 25.0  | ●          |               |           |            |               |      |               |   |                       |       |               |   |               |       |               |   |  |              |                            |   |  |              |                            |   |     |

### Assessment

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

## 2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Issue  | Commentary  | Auditor view   |
|--|---|--|
| <p><b>Recognition and Presentation of Grant Income</b></p> <ul style="list-style-type: none"> <li>The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income</li> </ul> | <p>As part of our work we have considered:</p> <ul style="list-style-type: none"> <li>whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all</li> <li>the Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income</li> <li>the Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the Comprehensive Income and Expenditure Statement (CIES).</li> <li>the Adequacy of disclosure of judgements in the financial statements</li> </ul> | <p>We reviewed the Council's assessment of whether it was acting as a principal or agent and concluded that their assessment and judgements were reasonable.</p> |

## 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate              | Summary of management's approach  | Audit Comments   | Assessment |
|--|---|--|------------|
| Provisions for NNDR appeals - £0.784m          | 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 where the calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.  | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>• Appropriateness of the underlying information used to determine the estimate</li> <li>• Impact of any changes to valuation method</li> <li>• Reviewed the reasonableness of the estimate; and</li> <li>• Reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Estimates and judgements in this area are reasonable.</p>   |            |
| Land and Buildings – Council Housing - £150.8m | The Council owns 2,995 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 £150.8m, a net increase of £4.2m from 2019/20 (£146.6m). | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>• Assessed of management's expert to ensure suitably qualified and independent;</li> <li>• Assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>• Confirmed there were no changes to valuation method</li> <li>• Assessed the consistency of estimate using the Gerald Eve report; and</li> <li>• Assessed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our work in this area is currently in progress, no issues have been identified to date.</p> | TBC        |

### Assessment

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



## 2. Financial Statements - other communication requirements

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

| Issue   | Commentary   |
|---|--|
| 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, including specific representations in respect of the Group, which is included in the Audit Committee papers.   |
| Confirmation requests from third parties                  | We requested from management permission to send confirmation requests to the Council's banker and those institutions with which the Council hold investments and borrowing. This permission was granted, and the requests were sent. These requests were returned with positive confirmations. |
| Accounting practices                                      | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.  |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management was provided.   |

## 2. Financial Statements - other communication requirements



### 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).

| Issue         | Commentary   |
|---------------|--|
| Going concern | <p data-bbox="871 464 2051 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2011 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 983" style="list-style-type: none"> <li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p data-bbox="871 999 2051 1137">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1153 1973 1297" style="list-style-type: none"> <li>• the nature of the Council and the environment in which it operates</li> <li>• the Council's financial reporting framework</li> <li>• the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul> <p data-bbox="871 1313 2051 1335">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1351 2051 1445" style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul> |

## 2. Financial Statements - other responsibilities under the Code

| Issue   | Commentary  |
|---|---|
| Other information                                     | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>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.</p> |
| Matters on which we report by exception               | We have nothing to report on these matters.   |
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>No detailed work is required in this area as the Council does not exceed the threshold.</p>   |
| Certification of the closure of the audit             | We intend to delay the certification of the closure of the 2020/21 audit of Mid Devon District Council in the audit report, as detailed in Appendix E, due to ongoing VFM work and the submission of the WGA Assurance Statement.   |



# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. Our work on these risks is underway and an update is set out below.

| Risk of significant weakness  | Work performed to date  |
|---|---|
| <p><b>Financial Sustainability</b></p> <p>There is a risk to the delivery of the Financial Plan. There is a risk that the Council has unidentified savings and funding gaps in financial planning that would substantially threaten the delivery of the plan.</p> | <p>We have reviewed the Council's final 2020/21 outturn report against its original and revised plan, which was reported at an underspend of £65k. We have reviewed various financial performance reports, including in year budget reporting to assess arrangements for complete, accurate and timely financial monitoring.</p> <p>Our work in this area is still ongoing and will focus on the robustness of the financial planning going forward, recognising the current gap in the Medium-Term Financial Strategy (MTFS). We will review the savings plans identified to date and the assumptions used in setting the budget and closing the initial funding gap. We will further consider the impact of Covid-19 on the Council's current financial position including the impact on budgeting into the short and medium term with a consideration of potential funding gaps in financial planning that could substantially threaten the delivery of the plan. Once complete our findings in this area will be reported in our Auditor's Annual Report. There are no issues emerging which impact on our account's opinion.</p>   |
| <p><b>Group Governance</b></p> <p>A number of recommendations remained outstanding at the conclusion of our work in 2019/20 that highlighted concerns about the governance arrangements surrounding the Council's company 3Rivers.</p>                            | <p>In the prior year we reported that there had been an improvement to the group governance around 3 Rivers Development Limited as key improvements had been made. However, we concluded weaknesses remained unaddressed from our previous review. As part of the initial consideration of the Value for Money work we have reviewed the progress against these areas and found the following progress:</p> <ul style="list-style-type: none"> <li>• The revised business plan was considered and approved at Cabinet on the 4 February 2021</li> <li>• Update reports and a final annual report is now taken to Cabinet for consideration at each meeting. These include an update on each project and the financial delivery.</li> <li>• The Deputy Chief Executive of the Council has now stepped down from the board and an independent director has been appointed.</li> <li>• Internal Audit has completed a follow up review in year, this was given reasonable assurance.</li> <li>• The initial action plan contained 34 recommendations which has resulted from various internal and external reviews. 33 of these recommendations have now been closed with the final recommendation being a final external review of progress to ensure appropriate progress has been made. This is adequately referred to the Annual Governance Statement Action Plan.</li> </ul> <p>Our work in this area is still ongoing and will focus on a detailed review of internal audits work as well as any externally commissioned reports. We will also complete a review of the updated business plan and performance monitoring of the Company that is reported to members to ensure there is appropriate correlation with Council objectives. Once complete our findings in this area will be reported in our Auditor's Annual Report. There are no issues emerging which impact on our account's opinion.</p> |

## 4. 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

### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

### 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 group. The following non-audit services were identified which were charged from the beginning of the financial year to September 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service                                | Fees £ | Threats identified                              | Safeguards   |
|--|--------|---|--|
| <b>Audit related services</b>          |        |   |  |
| Certification of Housing Benefit Claim | 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 £58,229 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. |
| Pooling of Housing Capital Receipts    | 5,000  | 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 £5,000 in comparison to the total fee for the audit of £58,229 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.  |



# Appendices

# A. Action plan – Audit of Financial Statements

We have identified one recommendations for the Council from our progress on the audit to date. We will provide a final update to the Council at the conclusion of our work. Any recommendations identified will be agreed with management and we will report on progress on these recommendations during the course of the 2021/22 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  |
|--|--|--|
| <br><b>Medium</b> | <b>Subsidiary Company audit requirement</b><br><p>The Companies Act provision in s 479 highlights that the small company audit exemption cannot be taken by a company when the company is part of a group who are above the small company threshold.</p> <p>We identified that the council's subsidiary company does not have audits undertaken.</p> | <p>We recommend that management arranges for audits to be undertaken of all group companies.</p> <p><b>Management response</b><br/> <b>TBC</b></p> |

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# B. Follow up of prior year recommendations

We identified the following issues in the audit of Mid Devon District Council's 2019/20 financial statements, which resulted in recommendations being reported in our 2019/20 Audit Findings report.

| Assessment | Issue and risk previously communicated   | Update on actions taken to address the issue   |
|------------|--|--|
| TBC        | 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 £1.3 million 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.  | This will be followed up as part of our Value for Money work.  |
| TBC        | Within 2019/20 the Council have commissioned a number of external reviews in relation to 3 Rivers Developments Limited which have identified 17 recommendations for improvement.   | This will be followed up as part of our Value for Money work.  |
| TBC        | 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.   | This will be followed up as part of our Value for Money work.  |
| TBC        | <p>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.</p> <p>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.</p> | The Council's S151 Officer is no longer on the board of 3 Rivers Development Limited, this will be followed up in more detail as part of our Value for Money work. |
| TBC        | <p>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.</p> <p>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.</p>   | This will be followed up as part of our Value for Money work.  |

# C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

| Detail   | Comprehensive Income<br>and Expenditure<br>Statement £'000 | Statement of Financial Position £'<br>000                    | Impact on total net<br>expenditure £'000 |
|--|--|--|--|
| The advance pension secondary contribution payment to the pension fund, covering 3 years from 2020-21, should reduce the net defined benefit liability. However, the Council have accounted for this advance payment as a prepayment. This does not comply with the Code, as these cash payments are reducing the net defined benefit liability. Once paid over, the cash is the asset of the pension fund: the local authority does not have control over the asset and so is part of the net defined benefit pension liability. It does not meet the definition of an asset under the Code [2.1.2.31]. |  | Cr Short Term Debtors £859                                   |  |
|  |  | Cr Long Term Debtors £890                                    |  |
|  |  | Dr Other Long-Term Liabilities<br>(Pension Liability) £1,749 |  |

# C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## 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   | Finding  | Adjusted? |
|---|--|-----------|
| Note 57: Figures for 'Minimum lease payment receivable' have been stated incorrectly for the duration 'Not later than one year' and 'Later than one year and not later than five years' . This was due to amounts relating to HRA Shops and Industrial Units being incorrectly excluded from the total. | The correct amounts should therefore be: <ul style="list-style-type: none"> <li>£371k for the period 'Not later than one year'</li> <li>£889k for the period 'Later than one year and not later than five years'</li> <li>£1,773k for the total sum of the note</li> </ul> | ✓         |
| A small number of minor disclosure updates and typographical changes were identified within the Statement of Accounts   | The financial statements have been updated to reflect auditor proposed presentational changes.   | ✓         |

# C. Audit Adjustments



Impact of unadjusted misstatements

No unadjusted misstatements have been identified.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

| Detail   | Reason for not adjusting   |
|--|--|
| <p>Adjusting Post Balance Sheet Event</p> <p>In July 2020, the Council 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 should be reflected in the 2019/20 statement of accounts.</p> | <p>Management concluded that the impact of this settlement is not material and therefore did not adjust.</p> |



# D. Fees

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

| Audit fees                       | Proposed fee | Final fee |
|----------------------------------|--------------|-----------|
| Council Audit                    | £36,729      | TBC       |
| Additional Fee                   | £21,500      | TBC       |
| Total audit fees (excluding VAT) | £58,229      | TBC       |

| Non-audit fees for other services    | Proposed fee | Final fee |
|--------------------------------------|--------------|-----------|
| Certification of Housing Benefit     | £12,666      | TBC       |
| Pooling of Housing Capital Receipts  | £5,000       | TBC       |
| Total non-audit fees (excluding VAT) | £17,666      | TBC       |

## E. Audit opinion [To follow]

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report.

