

# Mid Devon District Council Audit Progress Report and Sector Update

**Year ending 31 March 2022**

July 2022



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# Introduction

## Your key Grant Thornton team members are:

### Peter Barber

Key Audit Partner

T 0117 305 7897

E [peter.a.barber@uk.gt.com](mailto:peter.a.barber@uk.gt.com)

### Andrew Davies

Engagement Manager

T 0117 305 7844

E [andrew.davies@uk.gt.com](mailto:andrew.davies@uk.gt.com)

### Suraj Hirani

Engagement In-charge

T 029 2034 7598

E [suraj.m.hirani@uk.gt.com](mailto:suraj.m.hirani@uk.gt.com)

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at July 2022

## Financial Statements Audit

We undertook our initial planning and interim work for the 2021/22 audit in March and April 2022. We expect to begin our work on your draft financial statements in early to mid September 2022.

Our interim fieldwork included:

- Updating our review of the Council's control environment;
- Updating our understanding of financial systems;
- Reviewing Internal Audit reports on core financial systems;
- Understanding how the Council makes material estimates for the financial statements; and
- Completing initial group planning procedures.

The results of our work to date are included in this report.

In June we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2021/22 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by November 2022.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that comes into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in November 2022.

# Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<b>Audit Plan</b> We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2020/21 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	May 2021	Complete
<b>Audit Findings Report</b> The Audit Findings Report was reported to the Audit Committee.	November 2021	Complete
<b>Auditors Report</b> This includes the opinion on your financial statements.	December 2021	Complete
<b>Auditor's Annual Report</b> This Report communicates the key issues arising from our Value for Money work.	March 2022	Complete
<b>Audit Certificate</b> In order to certify the 2020/21 audit as closed we are required to issue our Whole of Government Accounts assurance statement. We are awaiting NAO guidance to be issued. Mid Devon District Council are likely to be below the threshold for detailed work to be required. This is a Nationwide issue and not specific to Mid Devon District Council.	December 2021	Awaiting guidance

# 2021/22 deliverables

## 2021/22 Deliverables

	Planned Date	Status
<b>Accounts Audit Plan</b> We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements.	June 2022	Complete
<b>Interim Audit Findings</b> We will report key findings from our interim audit within our Progress Report.	August 2022	Not due yet
<b>Audit Findings (ISA260) Report</b> The Audit Findings Report will be reported In November 2022.	November 2022	Not due yet
<b>Auditor's Annual Report</b> The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). The final version of the AAR will be published in line with the timescales to be set out by the National Audit Office. The AAR must be published on your website in line with requirements.	November 2022	Not due yet
<b>Auditor's Report</b> This will include our opinion on your financial statements and our other reporting requirements, as set out in 'The auditor's statutory responsibilities' section of this report.	November 2022	Not due yet

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
<b>Internal audit</b>	We have reviewed internal audit's work on the Council financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities or testing strategy.	Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach for the Council.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>Communication and enforcement of integrity and ethical values</li> <li>Commitment to competence</li> <li>Participation by those charged with governance</li> <li>Management's philosophy and operating style</li> <li>Organisational structure</li> <li>Assignment of authority and responsibility</li> <li>Human resource policies and practices</li> </ul>	To date, from the work we have completed, our work has identified no material weaknesses in entity level controls which are likely to adversely impact on the Council.
<b>Review of information technology controls</b>	<p>The Audit team has performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>Our work is still ongoing in this area.</p>	Our work is still ongoing in this area and we will report our findings in our Audit Findings Report.

	Work performed	Conclusions and recommendations
<b>Walkthrough testing</b>	We have completed walkthroughs of the key business processes impacting to the significant risk areas identified within our audit plan for the Council to assess the design effectiveness of controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements.	Our work in this area is still ongoing in this area and we will report our findings in our Audit Findings Report.
<b>Journal entry controls</b>	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any significant weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work in this area is still ongoing in this area and we will report our findings in our Audit Findings Report.
<b>Group</b>	<p>We have assessed the processes in place for producing group accounts. We have also had introductory meetings with the newly appointed auditors of 3 Rivers to discuss our assessment of risks, audit milestones and audit requirements.</p> <p>We have received the Council's draft financial statements and will review our audit strategy on commencement of our final visit.</p>	Our work in this area is still ongoing in this area and we will report our findings in our Audit Findings Report.



# Audit fees

In 2012, PSAA awarded a contract of audit for Mid Devon District Council beginning with effect from 2018/19. The fee agreed in the contract was £34,792. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures. There has also been an increased level of work required on VFM following the 2020/21 revision to the Code of Audit Practice.

PSAA continue to review additional costs to ensure they are appropriate. The scale fees have been updated to reflect additional costs relating to the 2018/19 financial year.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

At the time of issuing our Audit Plan in June 2022 we were unable to communicate our indicative fee for the 2021/22 audit. This is now set out below with a detailed breakdown of the 2021/22 fees is set out on the following page.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Scale Fee	£34,792	£34,792	£39,729
Additional Fee	£13,187	£32,937	£27,351
Total audit fees (excluding VAT)	£47,979	£67,729	£67,080

## Assumptions

In setting the fees, we assume that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we will have regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis - Council

Scale fee published by PSAA	£39,729
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Increased challenge, complexity and lower materiality	£3,125
Enhanced audit procedures for Property, Plant and Equipment including our own audit expert	£688
Enhanced audit procedures for Pensions	£688
Group audit	£3,750
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£5,100
<b>Recurring Audit fee 2020/21</b>	<b>£62,080</b>
Infrastructure	-
Remote Working*	£5,000
<b>Total audit fees (excluding VAT)</b>	<b>£67,080</b>

\*The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local authorities are exploring new ways of working to support its officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to the Council, and its workforce, both in providing more flexibility and reducing its environmental impact. Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

As part of our planning for 2021/22, we have been engaging with the Council to explore completing some elements of our work on-site over the summer. With Covid restrictions now lifted, this is the appropriate thing to do. We have been discussing this with PSAA and propose that where councils continue to have a preference to undertake audits remotely, either fully or in part, that audit fees would be uplifted to reflect the inefficiencies that this would cause. For Mid Devon District Council, we estimate this uplift to be in the region of £5,000.

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white.

Public Sector

A purple rectangular button with the text "Local government" in white.

Local  
government

# Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



Department for Levelling Up,  
Housing & Communities

# The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

## Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

## Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

## Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

## Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.



# Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \(NAO\) Report](#)

# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

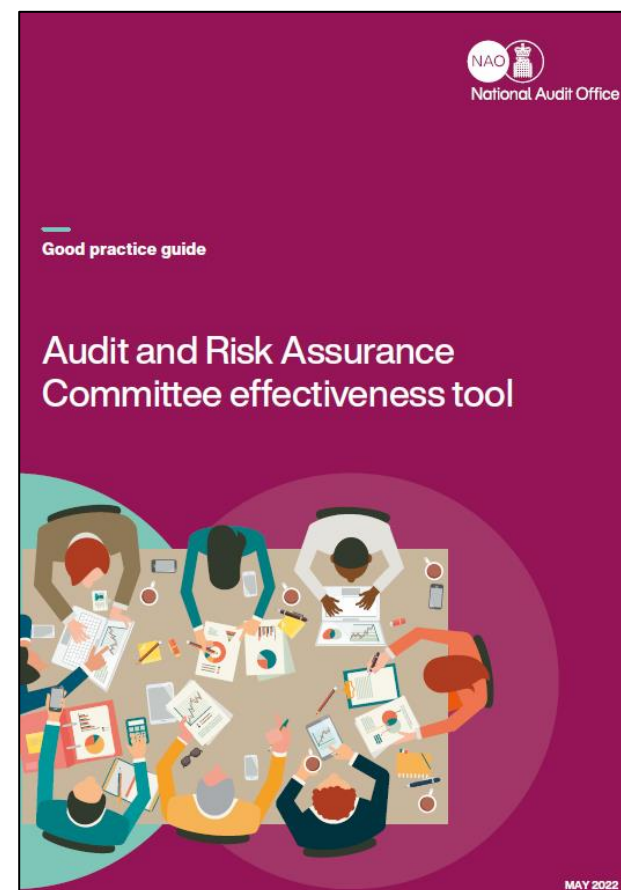
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:  
[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)



# Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error

