Mid Devon District Council Audit Progress Report

Year ending 31 March 2023

October 2023

Contents

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.

Introduction

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

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 October 2023

Financial Statements Audit

2021/22

Our initial Audit Findings report for the 2021/22 financial year was presented to the Audit Committee in January 2023. This report set out that the audit was substantially complete, with the exception of:

- Concluding on the impact on our own reporting of the qualification and emphasis of matter included in the 3 Rivers Development Limited's audit report;

Subsequently, all unsigned audits for 2021-22 were paused at the 31 March 2023 to consider the impact of publication of the results of the triennial actuarial review of pensions valuations. These were considered and the accounts updated accordingly.

These items are now cleared and our work on 2021/22 is now complete. An updated Audit Findings Report is on this meeting agenda. We expect to issue our opinion once the revised financial statements have been approved and signed on 24 October 2023.

2022/23

We commenced our audit as planned at the beginning of July 2023. We have started our work in the majority of areas with the exception of the group audit. With the decision to 'soft close' the subsidiary company, this will have an impact on the basis of preparation of the subsidiary accounts, that may involve changes to their accounts. The Council, the subsidiary and their auditors are currently considering the implications of this. As these changes will flow through into the group financial statements, we have paused this area of work.

In general, the Council has responded well to our queries. The one exception to this in relation to our IT planning work which remains in progress, due to delayed responses to our audit queries.

Page 7 onwards sets out progress to date on the significant risk areas set out in our audit plan.

Our findings on the work of the Council single entity audit will be presented at the 5th December Audit Committee, but the group outcomes will be dependent on the progress of the subsidiary and group audit.

Value for Money

Our 2022/23 VFM work is in progress. This work is being completed by our specialist VFM team. The key areas of focus will be:

- Financial Sustainability, and
- Group governance.

To date we have completed initial documentation reviews and are now at the stage of arranging follow up meetings with management.

We plan to issue our Auditors Annual Report in December 2023.

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP).

Our work on the 2022/23 claim has commenced and no issues have been noted to date.

Audit Deliverables – 2021/22

2021/22 Deliverables	Planned Date	Status
Audit Plan 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 and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	June 2022	Completed
Audit Findings Report The Audit Findings Report will be reported to the Audit Committee.	November 2022 Updated AFR on this agenda.	Complete – on the 24th October 2023 Audit Committee agenda.
Auditors Report This includes the opinion on your financial statements.	October 2022	Opinion to be issued following the 24th October 2023 meeting
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	November 2022	Complete

2021/22 Audit-related Deliverables	Planned Date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	January 2023	Complete

Audit Deliverables – 2022/23

2022/23 Deliverables	Planned Date	Status
Audit Plan 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 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report.	June 2023	Complete
Audit Findings Report The Audit Findings Report will be reported to the December Audit Committee.	October 2023	Our findings on the work of the Council single entity audit will be presented at the 5th December Audit Committee, but the group outcomes will be dependent on the progress of the subsidiary and group audit. Progress to date, against the significant risks are set out on pages 7-11.
Auditors Report This includes the opinion on your financial statements.	October 2023	We are unlikely to be in a position to finalise the audit following the December 2023 Audit Committee meeting. This is due the likelihood that the group audit will not be finished due to the issues set out on page 4 of this report.
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	December 2023	No yet due.

2022/23 Audit-related Deliverables	Planned Date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	January 2024	In progress

Progress against significant risks 2022/23

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	To date we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. We are currently completing our work: • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions; and Our work to date on the Council's financial statements has identified no significant issues in relation to management over-ride of controls. Our work on the group has not yet commenced.

Progress against significant risks 2022/23 (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The expenditure cycle includes fraudulent transactions (rebutted)	Group and Council	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for Mid Devon District Council because: • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. At the planning stage we concluded that for 3 Rivers Development Limited expenditure is well controlled, with elements of support provided by the Council. There is regular reporting to the Council which includes expenditure. On this basis we rebutted this risk for the group. We will continue to assess this rebuttal as the audit progresses. We do not consider this to be a significant risk for Mid Devon District Council.	We reconsidered this rebuttal on receipt of the draft financial statements and concluded that this remained appropriate. No specific work is planned as the presumed risk has been rebutted.

Progress against significant risks 2022/23 (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Group Revenue	Subsidiary	Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue and expenditure recognition. For Mid Devon District Council, 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 Development Limited's trading income as a significant risk of material misstatement, and a key audit matter. We have rebutted this presumed risk for the revenue streams of the Council because: • Other income streams are primarily derived from grants or formula based income from Central Government and taxpayers; and • Opportunities to manipulate revenue recognition are very limited.	Our work in this area has not commenced as the subsidiary accounts are being re-assessed and this is Likely to impact on the figures consolidated into the group financial statements.

Progress against significant risks 2022/23 (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and the key assumptions and judgements that underpin this significant estimate	Council	The Council revalues 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 (£195m) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, in particular any large or unusual assets or where there have been movements in valuations outside our expectations, as well as testing a sample of those within our expectations. This is one of the most significant assessed risks of material misstatement, and a key audit matter.	To date we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; and • written to the valuer to confirm the basis on which the valuation was carried out. We are currently completing our work: • challenging 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; • testing revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluating the assumptions made by the valuer for those assets revalued at 31 March 2023. For those assets not formally revalued, in year, we will assess how management has satisfied themselves that these are not materially different to current value at year end. Our work to date has not highlighted any significant issues in relation to the valuation of property plant and equipment.

Progress against significant risks 2022/23 (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability and the key assumptions that underpin this significant estimate	Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£70m in the Council's balance sheet) 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 rate, where our consulting actuary has indicated that a 0.1% change in this assumption would have approximately 1.9% 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.	To date we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and 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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; and • confirmed opening balances to the triennial revaluation. We are currently completing our work: • testing 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; • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtaining assurances from the auditor of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our work to date has identified no significant issues.

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