The Audit Findings for Mid Devon District Council

Year ended 31 March 2023

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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 have been discussed with management.

Name: Julie Masci
For Grant Thornton UK LLP
Date: 25 April 2024

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 2023 for the attention of 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.	The initial phase of our audit work to date was completed on a hybrid basis between July and November 2023. The draft group and Council financial statements were submitted for audit in June 2023. The Council consolidates one subsidiary company, 3 Rivers Development Limited, into its group financial statements. The draft group financial statements presented for audit were prepared and consolidated on the basis that the company would continue to trade. On 6 September 2023, the Council reached a decision to 'soft close' 3 Rivers Development Limited. This means that the subsidiary company accounts can no longer be prepared on a going concern basis and that the valuation of assets and liabilities within the subsidiary would need to be reassessed, along with any consequential impact on the Council's own and group financial statements. We raised this issue with management and facilitated a meeting of representatives from the Council and 3 Rivers Development Limited on 26 September 2023 to understand the Council and company's plans for it revised accounts preparations. At this meeting it was apparent that no arrangements to reconsider the accounts had been made at that time and it was agreed that the subsidiary's accounts would need to be revisited, to allow the subsidiary's audit to be undertaken. The decision was therefore taken in November 2023 to pause the audit and re-commence once this work is completed, and evidence was available for other outstanding areas. The audit of the subsidiary took place between January and March 2024, and we recommenced the audit on 8th April 2024. The audit opinion on the Council's subsidiary company was issued by Simkins Edwards on 21st March 2024 and contained an emphasis of matter in relation to going concern. The impact of the subsidiary accounts being consolidated on a non-going concern basis are set out on page 32 of this report. We have considered the impact of these findings on our own reporting and have concluded that the group (including the subsidiary company) was a going concern at the 31 March 2023 balance sheet date. We have requested a number of enhanced disclosures within the financial statements, covering this matter, which. We will refer to within our audit opinion as an Emphasis of Matter. We have now completed our work on the re-submitted group audit. As part of our group audit procedures, we have: • agreed the overall consolidation including alignment of accounting policies, and • agreed consolidation adjustments. Whilst officers have had to make a number of adjustments to the group financial statements, to reflect the revised subsidiary accounts, we have identified no audit matters in relation to the revised group financial statements. Our findings are summarised on pages 6 to 22. At the time of writing this report, we have identified no significant adjustments to the financial statements which would result in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised one recommendation for management as a result of our audit work. This is set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C. 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.

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 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 completed our VFM work and presented our Interim Auditor's Annual Report to Audit Committee on 26th March 2024. Our work identified two significant weaknesses in arrangements. A summary of the findings is set out on page 24 of this report. Following completion of our financial statements audit we have not identified any further significant weaknesses in the Council's arrangements. Our full findings are set out in our Interim Auditors Annual 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 have completed the majority of the other work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion. Our VFM work is complete as set out above.
Significant matters	During the course of the audit, we experienced some delays in responses to our audit queries. In addition, the uncertainty around the group position and the time involved to agree a way forward following the decisions to soft close the subsidiary impacted our progress on the audit. A number of balances in the Council's financial statements were linked to the group position. This has made undertaking efficient testing of debtors and expenditure in particular more difficult. As set out earlier in this report, we paused the audit whilst the group accounts were revisited, and restated. We have now completed this work. A final proposed audit fee is set out on page 35.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

Despite the challenges we set out on page 3, we have worked closely with the Council to resolve the significant matters relating to the group consolidation allowing us to meet the proposed government backstop date of the 30th September 2024.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. The Council has borrowing on its balance sheet totalling c£33m, a decrease of c£2m on the prior year. Whilst this is significant level of borrowing it is not deemed excessive, at this stage. As is set out in the VFM section of this report the Council have made loans to its subsidiary company totalling c£23m.

The Council has already recognised impairments of around £5.3 million in its accounts, including £4.5m in 2022/23. The Council notes that the implications of impairments in 2022/23 will need to be met from Reserves (£1.5m) and Service Underspends in 2022/23 (£3m). Its assessment in November 2023 of a further £3.7 million impairment would be funded from £1m of New Homes Bonus Earmarked Reserve and £2.7 from various Earmarked Reserves and Sinking Funds.

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 have been discussed with management.

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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components 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.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

This report sets out the results of this work.

Conclusion

Our audit work is substantially complete and there are a small number of areas where work is required to complete our audit. These items are set out below:

- Agreement of capital disclosures including the Council's minimum revenue provision;
- Following receipt of documentation on 18th April 2024 - agreement of HRA disclosure notes to supporting workings;
- Completion of final manager and engagement leader quality reviews;
- Receipt of management representation letter; and
- Review of the final set of financial statements.

On completion of the above work, we plan to issue and unqualified audit report, following the Audit Committee on 30th April 2024. This will include an emphasis of matter in relation to the basis of preparation for the subsidiary accounts.

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.

We have revised the performance materiality due to the actual gross expenditure changing significantly from that anticipated at the planning stage resulting in a review of the appropriateness of the materiality figure.

We set out in the table our determination of materiality for Mid Devon District Council.

We have also set out group materiality. This has been calculated using the revised group financial statements.

	Group Amount (£000)	Council Amount (£000)
Materiality for the financial statements	970	950
Performance materiality	725	710
Trivial matters	48	47

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	Risk relates to
Management override of controls 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.	As part of our work 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; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; • reviewed the component auditors work in relation to management override on control; and • tested high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration. Our audit work has identified that the Council do not have an inbuilt journals authorisation process in place. This means that users can post and authorise their own journals. A mitigating detective control exists wherein all journals above £25,000 posted in a month are reviewed by principal accountants in subsequent month has been put in place. Our testing of this control identified that this control did not operate as designed and the retrospective review was noy undertaken until September 2023, once the evidence was requested. In response to this finding, we fully assessed the control and tested impacted journals. This did not identify any material errors or indications of management override of controls. We have raised a recommendation to ensure that this key control operates as designed and is completed on a timely basis. We have reviewed the component auditors work in relation to the subsidiary company and can confirm that no issues were reported in relation to management override of controls. We were satisfied with the level of work completed.	Group and Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Risk relates to
Improper expenditure recognition 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 rebutted this presumed risk for Mid Devon District Council and the group 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. 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. The prior year audit of the subsidiary accounts did not identify any issues or expenditure being poorly controlled or incorrectly recognised. We therefore did not consider this to be a significant risk for Mid Devon District Council and the wider group. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment. No significant issues were noted as part of our work, and the component auditors work n expenditure. The component auditor highlighted one transaction that was not accrued that should have been. The value was £62k and related to work in progress. We have reported this as it is above our triviality. This remains unadjusted in the group financial statements.	Group and Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Risk relates to
Improper revenue recognition 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 concluded that the greatest risk of material misstatement relates to Group Revenue. We therefore identified the occurrence and accuracy of 3 Rivers Developments Limited trading income as a significant risk of material misstatement, and a key audit matter. We 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. This assessment remains unchanged. We have now completed our group procedures. Consolidated income was not material. We have reviewed the component auditors work on the completeness income. No issues were noted, and we were satisfied with the level of work completed.	Subsidiary only

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Risk relates to
Valuation of land and buildings (and Council dwellings) and the key assumptions and judgements that underpin this significant estimate The group 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 (£202m) 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.	As part of our work 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; • written to the valuer to confirm the basis on which the valuation was carried out; and • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by the valuer for those assets revalued at 31 March 2023. Our work has identified one error above our reporting threshold. As part of our work we noted that the valuation for Phoenix House, included in the financial statements was incorrect. This was due to the valuer not updating the rounding figure that was subsequently included in the Council fixed asset register. The value should have been £3.750m but was rounded in error to £3.550m. We are satisfied that this is an isolated error.	Council only

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Risk relates to
Valuation of the pension fund net liability and the key assumptions that underpin this significant estimate 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 (£16m 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.	As part of our work 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; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Our audit work has not identified any issues in respect of valuation of the net pensions liability.	Council only

2. Financial Statements: Key findings arising from the group audit

Compone nt	Component auditor	Findings	Group audit impact
Mid Devon District Council	Yes	The findings for the Council are set out within this reports.	Significant risk are identified on pages 8-12 – there are no findings to date that impact upon the overall group position.
3 Rivers Developmen ts Ltd	Yes	The draft financial statements were submitted for audit in June 2023. The subsidiary's accounts were prepared and consolidated on the basis that the company would continue to trade. On 6th September 2023 the Council decided to 'soft close' the company. This meant that the subsidiary company accounts could no longer be prepared on a going concern basis and that the valuation of assets and liabilities within the accounts (and group accounts) would need to be assessed. We raised this issue with management and facilitated a meeting of all parties. At this meeting it was agreed that the accounts would be revisited, and that Simkins Edwards LLP would then undertake their audit procedures. The decision was therefore taken at this point to pause the audit and re-commence once this work is completed. The decision was therefore taken in November 2023 to pause the audit and re-commence once this work is completed, and evidence was available for other outstanding areas. The audit of the subsidiary took place between January and March 2024, and we recommenced the audit on 8th April 2024. The audit opinion on the Council's subsidiary company was issued by Simkins Edwards on 21st March 2024 and contained an emphasis of matter in relation to going concern. The impact of the subsidiary accounts being consolidated on a non-going concern basis are set out on page 32 of this report. We have considered the impact of these findings on our own reporting and have concluded that the group (including the subsidiary company) was a going concern at the 31 March 2023 balance sheet date. We have requested a number of enhanced disclosures within the financial statements, covering this matter, which. We will refer to within our audit opinion as an Emphasis of Matter. We have now completed our work on the re-submitted group audit. As part of our group audit procedures, we have: • agreed the overall consolidation including alignment of accounting policies, and • agreed consolidation adjustments. Whilst officers have had to make a number of adjustments to the group financial statements, to reflect the revised subsidiary accounts, we have identified no audit matters in relation to the revised group financial statements.	The impact of the subsidiary accounts being consolidated on a non-going concern basis are set out on page 32 of this report. We have requested additional disclosures drawing the reader's attention to: • In the Council single entity accounts, there should be a post balance sheet event note highlighting the post year end decisions made regarding the 3 Rivers Development Limited closure, and • In the group accounts, highlight in a specific note within the basis of preparation of the group accounts and specifically that the subsidiary accounts consolidated into the group accounts have been prepared on the basis that they are no longer a going concern. We can confirm that management have actioned these changes, and we will refer to the going concern paragraph, within our audit report as an Emphasis of Matter.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £43m	Other land and buildings comprises £23.8m 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 (£19.2m) 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 Valuer to complete the valuation of properties as at 31 Mach 2023 on a five yearly cyclical basis. 20% of total assets were revalued during 2022/23, with the remainder subject to a desktop review using indices. The total year end valuation of land and buildings was £42.980m, a net increase of £0.724mm from 2021/22 (£42.256m).	We have carried out the following work in relation to this estimate: • Assessed management's expert to ensure suitably qualified and independent, • Assessed the completeness and accuracy of the underlying information used to determine the estimate, • Confirmed there were no changes to valuation method, • Assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and • Assessed the adequacy of disclosure of the estimate in the financial statements.	Light purple

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: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £159m	The Council owns 2,960 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 £159m, a net increase of £6m from 2021/22 (£153m).	We have carried out the following work in relation to this estimate: • Assessed management's expert to ensure suitably qualified and independent, • Assessed the completeness and accuracy of the underlying information used to determine the estimate, • Confirmed there were no changes to valuation method, • Assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and • Assessed the adequacy of disclosure of the estimate in the financial statements. No issues have been identified in relation to the judgements and estimations underpinning this account balance.	Light purple

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: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability	The Council's [total] net pension liability at 31 March 2023 is £16.077m (PY £56.098m), comprising the Devon Pension Fund Local Government pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £45m net actuarial gain during 2022/23.	We have carried out the following work in relation to this estimate: • Assessed management's expert to ensure suitably qualified and independent, • Assessed the actuary's roll forward approach taken, • We have used PwC as auditor's expert to assess actuary and assumptions made by actuary. The table below summarises where Mid Devon District Council fall in the acceptable ranges set by PwC:	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.80%	4.80% - 4.85%	●
Pension increase rate	2.90%	2.65% - 2.95%	●
Salary growth	3.90%	3.65% - 3.90%	●
Life expectancy – Males currently aged 45/65	23.1 21.8	20.9 – 23.4 19.5 – 22.1	●
Life expectancy – Females currently aged 45/65	24.4 22.9	24.3 – 25.9 22.9 – 24.5	●

- We received assurances over the completeness and accuracy of the underlying information used to determine the estimate,
- We received assurance over the reasonableness of the Council's share of LGPS pension assets, and
- We have reviewed the adequacy of disclosure of the estimate in the financial statements.

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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
eFinancials	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	Finance and General Ledger	N/A
ResourceLink	ITGC assessment (design, implementation and operating effectiveness)	🟢	🟢	🟢	🟢	HR and Payroll	N/A
Pay360 (AIM)	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	Income Management	N/A
Revenues and Benefits	ITGC assessment (design, implementation and operating effectiveness)	🟢	🟢	🟢	🟢	Revenues and Benefits	N/A
Orchard	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	Housing Management	N/A
Business Objects	ITGC assessment (design, implementation and operating effectiveness)	🟢	🟢	🟢	🟢	Information Management	N/A

Assessment

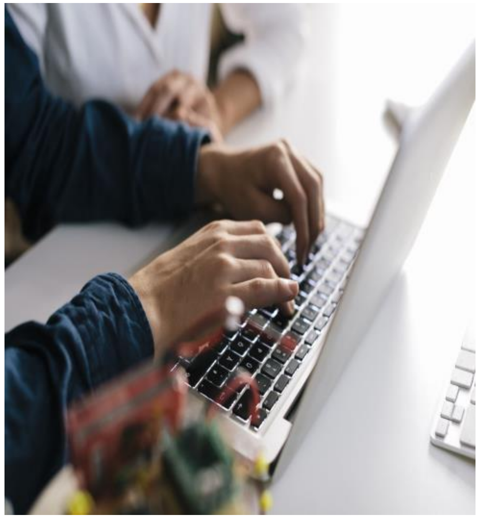
- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

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	The letter of representation is included alongside this report. This includes additional representations in relation to: • There being no outstanding equal pay claims, • There is no material impact of Reinforced Autoclaved Aerated Concrete on the Council's property valuations, and • That the impairment of loans to the subsidiary company remains appropriate.
Audit evidence and explanations	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.

2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of the requests were returned with positive confirmation.
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

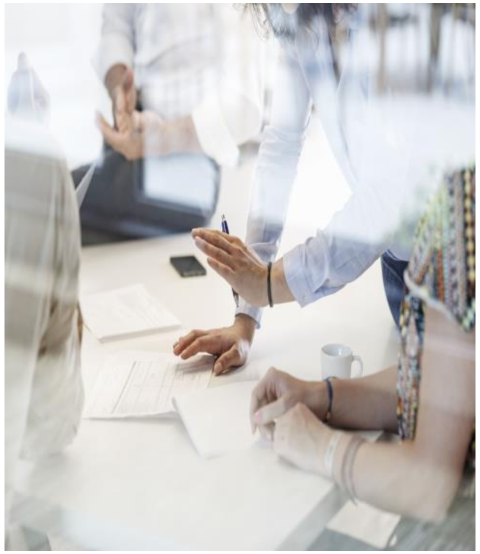
Our responsibility

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	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 some 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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 • 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. 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: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. As set out earlier in this report, 3 Rivers Development Limited is no longer a going concern following the Council's decision to 'soft close' the company in September 2023. The Company's accounts have been re-drafted on a 'non' going concern basis. The impact of this on the group financial statements is set out in the audit adjustments section of this report. This change does not impact on our assessment of the overall group as a going concern, we have however requested additional disclosures to reflect the basis of preparation, which we will refer to in an emphasis of matter paragraph in our audit report. The auditor of 3 Rivers Developments Limited included an emphasis of matter within their audit report on the subsidiary's financial statements.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	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. We have nothing significant to report on these matters. A small number of minor changes were made to the draft statements.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have proposed to management that the Annual Governance Statement needs to be updated to reflect the findings of the 2022-23 VFM and financial statements audits. These have been actioned by management.



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	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. No detailed work is required in this area as the Council is below the thresholds set by the NAO. The required assurance statement will be submitted on issue of our audit report.
Certification of the closure of the audit	Our financial statements work is nearing completion. We intend to certify the closure of the 2022/23 audit of Mid Devon District Council in the audit report, once this work is completed, and we have issued our final Auditors Annual Report.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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 completed our VFM work and presented our Auditor's Annual Report to the Audit Committee on 26th March 2024. The results of this work is summarised below.

Risk of significant weakness	Work performed to date
Group Governance Group Governance was included as a risk in our 2021/22 Audit Plan. Our 2021/22 AAR sets out that, whilst we were undertaking our 2021/22 review (in 2022/23), we became aware of ineffective decision-making. This was in respect of approving the 2023/24 business plan for the Council's wholly owned subsidiary, 3 Rivers Development Limited. In our 2021/22 AAR and due to this escalation, we concluded that we would undertake our detailed work in this area in 2022/23. In addition to a more generic review of arrangements we expect, or work will focus on: • The Council's governance and oversight arrangements of its arm's length body and its role as shareholder, and • The relationship between key officers and members regarding decision making. We will also have regard to the independent viability review that has been commissioned for the summer of 2023.	Our work identified two significant weaknesses in arrangements: • The first was in relation to governance and the impact that debate on the 3 Rivers Development Limited's business plan and the impact that this had on the 2023/24 budget setting process, and • The second was in relation to the Council not exercising its shareholder role effectively.
Financial sustainability Our 2021/22 AAR made recommendations in relation to financial sustainability. These were focused on the need to develop a more strategic process for identifying and reporting progress against savings and efficiency plans. The environment in which the Council operates is becoming increasingly challenging. The Council's 2023/24 budget of £16,830,364 includes the use of reserves of c£2.2m. Inflation and other general macro-economic factors have impacted quite significantly all Council's with Mid Devon reporting that energy bills have increased by 33%. The Medium-term financial plan (MTFP), agreed in March 2023 set out a cumulative budget gap of £3.9m through to 2027/28. Bridging this gap represents a significant challenge. As part of our response to this risk we will review the assumptions underpinning the MTFP for reasonableness, specifically the inclusion of £1.4m interest relating to 3 Rivers Developments Limited over the MTFP.	No significant weaknesses were noted in relation to financial sustainability. Our full findings are set out in our Interim Auditors Annual Report.

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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

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 Grant Thornton International Transparency report 2023.

4. Independence and ethics

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 Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	17,775	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 £17,775 in comparison to the total indicative fee for the audit of £68,580 and in particular is not significant 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Homes England Compliance Audit	£5,500	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 £5,500 in comparison to the total indicative fee for the audit of £68,580 and in particular is not significant 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 capital receipts	£7,500	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 £7,500 in comparison to the total indicative fee for the audit of £68,580 and in particular is not significant 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – Audit of Financial Statements

At the time of writing this report we have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2022/23 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
	We identified as part of our work on journals that the Council do not have an inbuilt journals authorisation process in place. This means that users can post and authorise their own journals. A mitigating detective control exists wherein all journals above £25,000 posted in a month are reviewed by principal accountants in subsequent month has been put in place. Our testing of this control identified that this control did not operate as designed and the retrospective review was no undertaken until September 2023, once the evidence was requested.	We recommend that going forward the Council ensures that retrospective controls operate as designed. **Management response** We will ensure that this control operates as designed.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Mid Devon District Council's 2021/22 financial statements, which resulted in one recommendations being reported in our 2021/22 Audit Findings report. This remains an area of focus for the Council.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Our work identified an area for improvement for the Council's consideration. Selecting samples for our debtors and creditors testing has been made more difficult as the Council were unable to provide a list of amounts owed/due at the year end. As the populations are not cleansed the audit team have had to adjust our testing strategy to ensure we are not testing bought forward or contra balances. We recommended that going forward the Council endeavour to provide cleansed populations in these two areas.	This remains a recommendation for the Council as the debtor and creditor populations were not cleansed, and as such additional work was required in order to select our samples. **Management response** The Local Authority (SOA) disclosure requirements for Debtors/Creditors makes it difficult for us to simplify our reports without considerable work. Historically this hasn't been a significant issue and seems more to do with a change in the audit requirements. We will of course endeavour to refine our reports and working papers to benefit future audits and will work with the audit team, in advance of the year end, to try and ensure we can provide data to assist the testing process.

Assessment

✓ Action completed

X Not yet addressed

D. 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

The adjusted misstatements identified during the audit are set our below:

Adjusted misstatements	Adjusted?
The 3 Rivers Development Limited accounts were originally prepared and consolidated on a going concern basis. In September 2023 a decision was taken to 'soft close' 3Rs. At this point the company was no longer a going concern. We challenged management at the council and the company on this matter. This was agreed and the group audit was paused whilst the subsidiary accounts (and group) were redrafted on a non-going concern basis. The key changes to the group accounts are summarised below. These predominantly relate to further impairment of Work In Progress: Group Comprehensive Income and Expenditure Statement • Expenditure increased from £1,376k to £3,713k an increase of £2,337k Group Balance sheet • Work in progress decreased from £13,946k to £11,632k • Short-term creditors increased from £11,023k to £11,046k • Usable reserves down from £51,964k to £49,627k Other • Cashflow, Movement in reserves and group notes have all been updated by these amounts.	✓

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/issue/Omission	Adjusted?
In the Council single entity, we recommended that there should be a post balance sheet event note highlighting the post year end decisions made to soft close 3 Rivers Development Limited. In addition, and within the group financial statements we have recommended that a specific note be added, within the basis of preparation of the group accounts, that specifically discloses that the 3 Rivers Development Limited subsidiary accounts have been consolidated into the group accounts on the basis that they are no longer a going concern. We will refer to this paragraph in and emphasis of matter in our audit report.	✓
During the course of the audit a number of small disclosure amendments were made to the financial statements, Annual Governance Statement and Narrative Report. These have not been reported separately due to their insignificant nature.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

There are two unadjusted misstatements to bring to your attention. The table below provides further details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Council/Group	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
As part of revaluation work we noted that the valuation for Phoenix House, included in the financial statements was incorrect. This was due to the valuer not updating the rounding figure that was subsequently included in the Council fixed asset register. The value should have been £3.750m but was rounded in error to £3.550m. We are satisfied that this is an isolated error.	Council only	25	(200) (175 to revaluation reserve 25 to CIES)	25	(25)	Not material
There was one unadjusted misstatement reported by the component auditors that was above triviality. This relates to £62k of unrecorded expenditure in WIP and accruals at the group level.	Group	62	(62)	62	(62)	Not material
Overall impact		87	(262)	87	(87)	

D. Audit Adjustments (continued)

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 2021/22 financial statements.

Detail	Statement of Financial Position £' 000	Reason for not adjusting
An estimated understatement of long-term debtors (LTD) of £128k was noted. This is in relation to an historic rent to mortgage scheme. The LTD figure in the financial statements is based on the property value when the purchases were made in 2006 and 2007. The value of these properties can be reasonably predicted to have increased, so this figure is understated. A valuation was made of similar properties and using percentage increase in value experienced we have be able to estimate the potential understatement. This error is isolated to this item as there are no other rent to mortgage schemes operating at the Council and we have confirmed there are no similar debtors in the population sampled from. The Council have not amended this figure.	(128)	Not material and will be corrected in the 2022/23 financial year. This error has not yet been corrected. We have confirmed that this issue was corrected in 2022/23.
Overall impact	(128)	

E. Fees and non-audit services

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

Audit fees	Proposed fee *	Final fee *
Scale fee published by PSAA 2022/23	**£44,230**	£44,230
Additional work on Value for Money (VfM) under new NAO Code	£9,000	£9,000
Further risk based VFM work in relation to 3 Rivers Development Limited	-	£11,500
Increased audit requirements of revised ISAs 540 / 240 / 700	£2,100	£2,100
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000	£3,000
Standard procedures in relation to the group audit	£6,000	£6,000
Additional risk-based audit procedures in relation to the 'soft close' of the Council's subsidiary company	-	£4,500
Enhanced audit procedures for Payroll – Change of circumstances	£500	£500
Enhanced audit procedures for Collection Fund- reliefs testing	£750	£750
Increased audit requirements of revised ISAs 315	£3,000	£3,000
Total audit fees 2022/23 (excluding VAT)	**£68,580**	**£84,580**

* subject to PSAA approval

Due to the late communication of the proposed 22/23 audit fee the audit fee included in note 14 of the financial statements does not agree to the value set out here and set out further on the following page.

The Council has inserted a disclosure note setting out the updated audit fee. Some aspects of the audit fee are subject to PSAA approval and will be recognised when approved.

The final audit fee charged and agreed by PSAA for the 2021/22 audit was £85,580.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69)). None of the above services were provided on a contingent fee basis.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefit Subsidy	£17,775	£17,775
Homes England Compliance Audit	£5,500	£5,500
Pooling of capital receipts	£7,500	£7,500
Total non-audit fees (excluding VAT)	**£30,775**	**£30,775**

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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