

# The Annual Audit Letter for Mid Devon District Council

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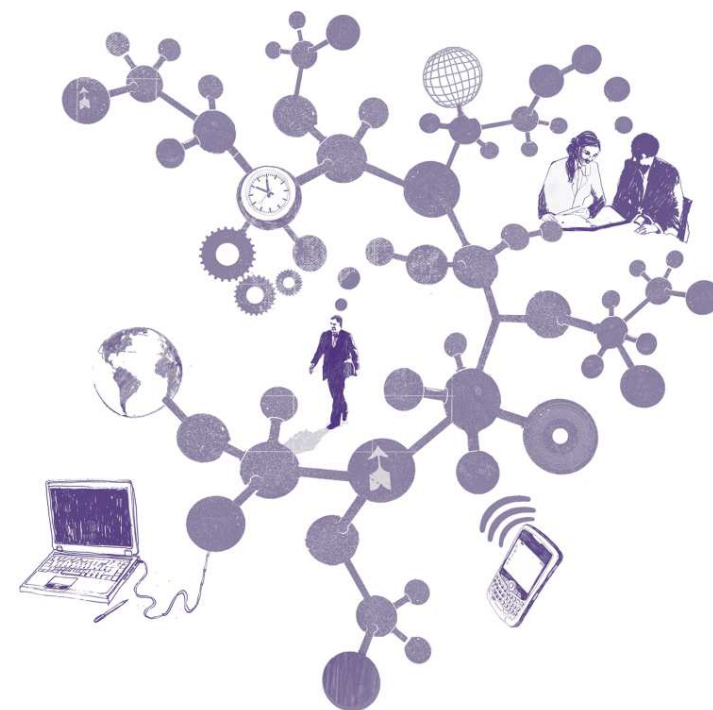
**Year ended 31 March 2016**

**20 September 2016**

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Mid Devon District Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 15 July 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 15 July 2016. Through our liaison and the commitment by the Council's finance staff we are pleased to report that this was the earliest point that we could issue our opinion. The Council have shown that they are well equipped to meet the forthcoming early deadline of audit sign off on 31 July 2016 when it commences in 2017/18.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 15 July 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of Mid Devon District Council in accordance with the requirements of the Code on 6 September 2016.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**September 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £900k, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it spent the income it raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, auditor's remuneration and senior officer remuneration.

We set a lower threshold of £45k, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

**Table 1: Audit risks**

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Mid Devon District Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Mid Devon District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We reviewed the accounting policies for revenue recognition.</p> <p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We undertook:</p> <ul style="list-style-type: none"> <li>• a review of accounting estimates, judgments and decisions made by management;</li> <li>• testing of journal entries and a review of the control environment around posting; and</li> <li>• a review of unusual significant transactions.</li> </ul> <p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</p>

# Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property, plant and equipment - Valuation gross, revaluation measurement not correct</b></p> <p>The Council is required to revalue its assets, this represents a significant estimate by management in the financial statements. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value.</p> <p>Mid Devon District Council revalues its assets annually, at the 31st March each year.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>• documented and walked through the key controls;</li> <li>• reviewed management's processes and assumptions for the calculation of the estimate;</li> <li>• reviewed the competence, expertise and objectivity of the valuer;</li> <li>• reviewed the instructions and information issued to the valuer and the scope of their work;</li> <li>• discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions; and</li> <li>• tested the revaluations made during the year to ensure they were input correctly into the Council's asset register.</li> </ul> <p>Our work did not identify any issues in this area.</p>
<p><b>Valuation of pension fund net liability - valuation net</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>• documented the key controls that have been put in place by management to ensure that the pension fund liability was not materially misstated;</li> <li>• walked through the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements;</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary.</li> </ul> <p>Our audit work did not identify one issue in respect of the pension fund net liability.</p> <p>Management identified an incorrect disclosure in respect of the return on plan assets, and the presentation was corrected for 2015/16. There is also a requirement to re-present the 2014/15 comparatives; this was subsequently adjusted.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 15 July 2016, well in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

No significant issues were identified during the course of the audit.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We were not required to use our additional powers during the 2015/16 audit.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council on 15 July 2016, we recommended that the Council need to continue to review the financial resilience and robustness of future budget assumptions and savings plans.

Management have responded and the Council has already commenced the budget process for 2017/18 and started to update the assumptions in the Medium Term Financial Plan (MTFP). All Service managers have been tasked with providing details of the impact on service provision together with any associated risks following the identified budget cuts.

However, there is considerable uncertainty going forward in respect of local government funding and the Council will need to revisit central government grants and assistance from other bodies such as Devon County Council, especially following the BREXIT vote. The Council will continue to follow developments closely and base its medium term financial plan on the best available information prior to publication, highlighting the assumptions made in the model.

## Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.



# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial outturn</b></p> <p>The Council originally forecast an overspend of £372k for 2015/16; a budget for 2016/17 that is balanced using £743k of New Homes Bonus, and whose future is uncertain; and finally a preliminary grant settlement that shows the elimination of the Revenue Support Grant (£1.7m in 2015/16) by 2019/20.</p>	<p>We reviewed the Council's MTFP and savings plans, and discussed the projected plans with management.</p>	<p>The Month 12 outturn report was presented at the May Cabinet meeting and the financial position is reported to Cabinet at each meeting. The financial statements show a net overspend of £169k for 2015/16.</p> <p>The MTFP shows an overall deficit on General Fund totalling £3.3m over the life of the plan, meaning GF reserve would be overdrawn by £1m by the end of 19/20. The deficit for forecast for 2016/17 is £508k, which increases annually peaking at £1.2m in 2019/20. The MTFP Capital Programme is balanced until 2018/19 but has £3.1m deficit for 2019/20.</p> <p>The 2016/17 budget has been balanced with a temporary £326k transfer from NHB reserve. Work on strategic planning for delivering balanced budgets in the future to commence with the new corporate plan.</p> <p>Presented in October 2015 the MTFP shows a cumulative deficit of £3.3m over the five year period. Management have identified potential service savings of £1,811k which could be delivered over the next 4 financial years. The General Fund Balance stands at £2.3m at the 31 March 2016.</p> <p>The Council has identified the extent of savings required for the next four years and has already identified areas of savings that address the majority of the shortfall. The Council has shown that it can manage the savings process and has a good record of identifying and delivering savings. However, the delivery of the MTFP will be challenging for the Council.</p>

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit on the 15<sup>th</sup> July 2016, at the earliest possible signing date, well before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We worked with you to streamline your processes to ensure that the Council is well placed to produce a compliant set of financial statements that is prepared, and audited, within the condensed timescales proposed for 2017/18.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need to monitor, track and achieve the identified savings plans.

Sharing our insight – we provided regular Audit Committee updates covering best practice. Areas we covered included. Innovation in public financial management; Knowing the Ropes – Audit Committee; Effectiveness Review; Making devolution work; Reforging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts. The Council's finance team have agreed to present their success at our early closure seminar in October 2016.

Thought leadership – We have shared with you our publication on "Building a successful joint venture" and will continue to support you as you consider greater use of alternative delivery models for your services.

Supporting development – Over the last year we have hosted a number of events and workshops over the year. These are designed to support and inform Council officers, and members, on current issues and topics:

- November 2015: Audit Quality and Efficiency and Early Close workshops
- February 2016: Building a successful trading company
- March 2016: Undertaking the 2015/16 accounts closedown (with CIPFA-FAN)

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# Working with the Council

## **Our work with you in 2015/16 (continued)**

Events already planned for later this year, are:

- October: 6<sup>th</sup>: Income Generation: Local Government and Private Sector Roundtable Event
- October 19<sup>th</sup>: South West LG Faster Close & Highways Network Assets client workshops:
- TBA: Building a successful joint venture.

Grant Thornton has also been pro-active in supporting Local Government in Devon with regular input and attendance to the Devon Chief Accountants group and the Devon Audit group. This facilitates our working together with organisations as the largest provider of external audit to the Public Sector in Devon.

Providing information – Alongside our national publications, above, we also shared data analytics information highlighting health and social conditions and lifestyle needs in your area. The key reports we have shared are:

- District Profile: An Economic, Social and Environmental Summary Profile of Cornwall
- Health and wellbeing Index
- Business Location Index-Mid Devon

Similarly we support these offerings with the opportunity to subscribe to our extensive bespoke databases:

- Place analytics
- CFO Insights

We will continue to liaise closely with the senior finance team during 2016/17 on important accounting developments, with timely feedback on any emerging issues.

# Appendix A: Reports issued and fees

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

## Fees

	Proposed Fee £	Final Fee £	2014/15 fees £
Council audit	47,700	47,700	63,600
Grant certification	7,418	*7,418	10,374
<b>Total audit fees (excluding VAT)</b>	<b>55,118</b>	<b>55,118</b>	<b>73,974</b>

\* Certification work is not yet complete

## Fees for other services

Service	Fees £
Audit related services:	None
Non-audit services	
- Pooling of capital receipts 2014/15	1,400
- HCA Decent Homes backlog claim 2014/15	1,500

## Reports issued

Report	Date issued
Audit Plan	15 March 2016
Audit Findings Report	15 July 2016
Annual Audit Letter	20 September 2016



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