

The Annual Audit Letter for Mid Devon District Council

Year ended 31 March 2017

19 September 2017

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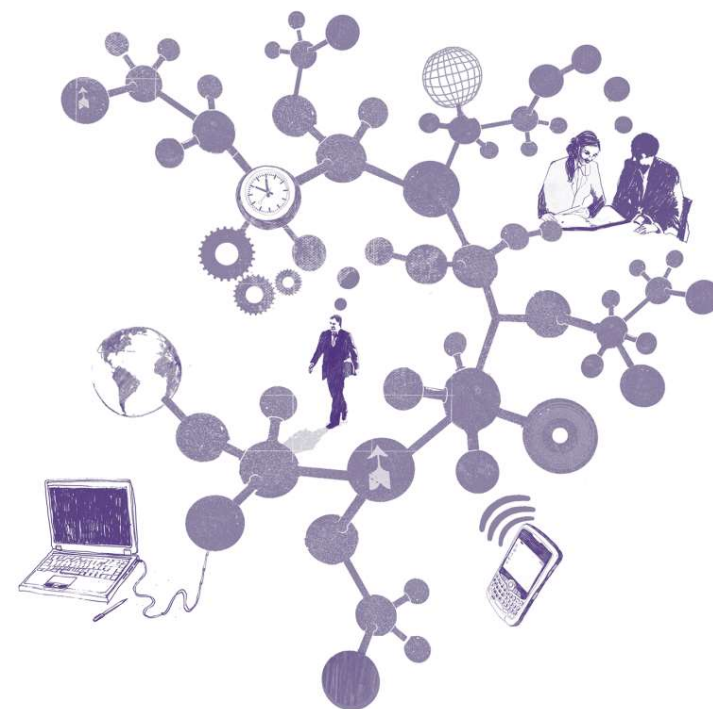
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Contents

Section

Page

1. Executive summary	...
2. Audit of the accounts	...
3. Value for Money conclusion	...

Appendices

A Reports issued and fees	
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Mid Devon District Council for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 17 July 2017.

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 17 July 2017.

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 2017. We reflected this in our audit opinion on 17 July 2017.

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 8 September 2017.

Whole of Government accounts

We submitted our assurance statement on the Whole of Government Accounts on 14 August 2017.

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 2017. 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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £935k, 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 has spent the income it has raised from taxation and grants during the year.

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

We set a lower threshold of £46,750, above which we reported errors to the Audit/Other 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 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 the Director of Finance, Assets and Resources 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 included in the Statement of Accounts on which we gave our opinion.

We carried out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we 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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment The Council revalues its assets annually, at the 31st March. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	<ul style="list-style-type: none">• Reviewed management's processes and assumptions for the calculation of the estimate.• Reviewed the competence, expertise and objectivity of any management experts used.• Reviewed the instructions issued to valuation experts and the scope of their work• Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.• Reviewed and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.• Tested the revaluations made during the year to ensure they were input correctly into the Council's asset register• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	<p>The Council's Council Dwellings increased in value by £17,796k in 2016/17. This was primarily due to the change in discount adjustment in the DCLG guidance, from 31% to 35%. This discount when applied reduces the market value to 35% (31%) of the open market valuation, thus contributing to an increase in the reported value of Council dwellings.</p> <p>We further identified that the Asset Held for Sale at the balance sheet date had been incorrectly classified as non current assets rather than as a current asset. This has subsequently been adjusted. See page 18 of this report.</p> <p>Our work did not identify any issues in respect of the valuation of property, plant and equipment.</p>

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. 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. Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>The Pension Liability disclosed in the accounts increased by £16,502k, primarily as a result of the reduction in the discount rate applied by your actuary. We reviewed all the assumptions applied and are assured this is in line with general application across Local Government pension schemes.</p> <p>We use an audit expert – PWC- to review the methodology and assumptions made by the actuaries across the country. PWC's review highlighted that some of the estimates used by your actuary - Barnett Waddingham were out of line with other actuaries, specifically the discount rate and the future inflation rate, which were higher than the average.</p> <p>We therefore reviewed the assumptions made and performed a sensitivity analysis of the rates applied. This work concluded that, whilst the expectation is that the liability is higher than other actuaries might forecast, (a point estimate range of between £300k - £444k) it is, nevertheless a reasonable estimation of the potential liability.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 17 July 2017, in advance of the 30 September 2017 national deadline.

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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 17 July 2017.

In addition to the key audit risks reported above, there were no issues we wish to bring to your attention

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It 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.

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 2016 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 17 July 2017, we agreed recommendations to address our findings as follows.

- **Savings plans:** - Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting to the Council and Members.

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 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial outlook</p> <p>The Council was forecasting an overspend of £64k for 2016/17; a budget for 2016/17 that is balanced using £89k of New Homes Bonus, and whose future is uncertain as the preliminary grant settlement shows the elimination of Revenue Support Grant by 2019/20. The MTFP shows a deficit of £419k in 17/18 which increases annually, peaking at £975k in 2020/21. Without any action the General Fund reserve of £2.2m would become overdrawn by £1.25m over the life of the plan.</p>	<p>We reviewed the Council's arrangements for putting together and agreeing its medium term financial plan, including identification of savings plans; and its arrangements for monitoring and managing delivery of its budget and savings plans for 2016/17, 2017/18 and beyond.</p> <p>In addition we considered the 2016/17 accounts and financial out-turn for the year. These showed an underspend of £30k, and allowed for transfers to usable reserves of £5,847k. This included £927k increase in new homes bonus and £2,716 increase in HRA earmarked reserves.</p>	<p>At 31 March 2017 the Council finds itself in a strong financial position. It has achieved its savings plans and cut costs, without any appreciable reduction in service delivery or quality. Although the myriad of uncertainties affecting local government make medium term financial planning far more challenging, the fairly recent confirmation of a fixed 4 year funding settlement has at least given some clarity to one of the Councils major funding sources. And to this end the Council's senior leadership team is already working to set a strategic 5-7 year vision which is both deliverable and affordable.</p> <p>However, savings need to be achieved to meet the funding gap identified in the medium term financial plan. The Council has achieved its plans for 2016/17, and quarterly reporting against the budget has ensured that the savings have been achieved.</p> <p>Forward planning needs to set out the annual savings programme in a manner that allows the achieved savings to be monitored against plans. Management need to ensure that they monitor this through regular reporting.</p>

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 £
Council audit	47,700	47,700
Grant Certification – HB Subsidy	6,908	6,908
Total audit fees (excluding VAT)	54,608	54,608

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Reports issued

Report	Date issued
Audit Plan	21 March 2017
Audit Findings Report	17 July 2017
Annual Audit Letter	8 September 2017

Fees for other services

Service	Fees £
Audit related services:	None
Non-audit services	
- Pooling of capital receipts 2015/16	1,500
- HCA Decent Homes backlog claim 2015/16	2,000
- Taxation advice in respect of Special purpose Vehicle	10,000

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 table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
Audit related services				
	- Pooling of capital receipts 2015/16	1,500	No	
	- HCA Decent Homes backlog claim 2015/16	2,000	No	
Non-audit services				
	- Taxation advice in respect of Special purpose Vehicle	10,000	Yes	Work was carried out by specialist team independent of the Audit team
		12,500		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



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