

# The Audit Findings for North Devon District Council

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Year ended 31 March 2019

19 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of North Devon District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>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 Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• 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.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during July. Our findings are summarised on pages 4 to 13. We have not identified any adjustments to the financial statements that have resulted an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is in progress and there are no matters of which we are aware of at this time that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- PPE valuations – Valuer's assumptions and how management gain assurance that the assets are not materially different to current value at the year end, particularly for those that have not been valued in year – as this is a significant estimate it is essential that this is not materially incorrect</li><li>- Completion of our work on pension liabilities and challenge of actuarial assumptions</li><li>- Completion of our review of the McCloud assumptions made by the actuary and reviewed by management</li><li>- completion of our internal quality control procedures</li><li>- receipt and review of the assurance letter from the auditors of Devon Pension Fund</li><li>- receipt of management representation letter; and</li><li>- review of the final set of financial statements.</li></ul> <p>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.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of North Devon District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Value for Money arrangements</b>	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that North Devon District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	We have not exercised any of our additional statutory powers or duties

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 5 March 2019.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Council meeting on 24 July 2019. These outstanding items include:

- PPE valuations – Valuer's assumptions and how management gain assurance that the assets are not materially different to current value at the year end
- Completion of our work on pension liabilities and challenge of actuarial assumptions
- Completion of our review of the Mc Cloud assumptions made by the actuary and reviewed by management
- completion of our internal quality control procedures
- receipt and review of the assurance letter from the auditors of Devon Pension Fund
- receipt of management representation letter; and
- review of the final set of 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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for North Devon District Council.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,153k	Based on 2% for your gross revenue expenditure for the year
Performance materiality	865k	Using 75% of materiality to reflect our assessment of risk
Trivial matters	58k	5% of materiality
Materiality for Senior Officer Remuneration	50k	Potential public interest in these figures

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 The revenue cycle includes fraudulent transactions (Rebutted)</b></p> <p>Under ISA (UK) 240 there is a rebuttable 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><b>Auditor commentary</b></p> <p>Having reconsidered the risk factors set out in ISA240 and the nature of the revenue streams at the Council since issuing the Audit Plan, we have determined that the risk of fraud arising from revenue recognition can still 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</li> <li>• The culture and ethical frameworks of local authorities, including North Devon District Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for North Devon District Council.</p>
<p><b>2 Management override of controls</b></p> <p>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.</p> <p>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.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in relation to management override of controls.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<div data-bbox="68 287 99 325">3</div> <div data-bbox="136 287 493 311"><b>Valuation of land and buildings</b></div> <div data-bbox="136 325 654 846"><p>The Authority revalues its land and buildings 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 (over £80 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p><p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p></div>	<div data-bbox="673 287 907 311"><b>Auditor commentary</b></div> <div data-bbox="673 325 2013 768"><p>We have undertaken the following work in relation to this risk:</p><ul style="list-style-type: none"><li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work</li><li>• evaluated the competence, capabilities and objectivity of the valuation expert</li><li>• written to the valuer to confirm the basis on which the valuation was carried out</li><li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li><li>• tested revaluations made during the year to see if they had been input correctly into the Authority's asset register</li><li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li></ul><p>Our work is currently in progress on the challenge of assumptions used by the valuer and how management gain assurance that the assets are not materially different to current value at the year end. We will update the Governance Committee with our findings.</p></div>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<div data-bbox="68 287 99 325">4</div> <p><b>Valuation of pension fund net liability</b></p> <p>The Authority'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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£61.7 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li><li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li><li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li><li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability and assessing how management have challenged assumptions made by the actuary, including the impact of the Brexit decision on the pension fund investments.</li><li>• 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</li><li>• 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</li><li>• obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li></ul> <p>Our work in currently in progress.</p>



# Significant findings - other issues

Issue	Commentary	Auditor view
<p><b>Potential impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>It is our view this relates to a past event with an obligation and so should be reflected within the pension liability in the accounts.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,039k.</p> <p>Management's view is that the impact of the ruling is not material for North Devon District Council, and will be considered for future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We have included this as an unadjusted misstatement within Appendix C.</p>
<p>Our cut off testing identified an invoice for landscape design at Capstone Hall of £6k that related to 2018/19 but had not been accrued for.</p>	<p>The Council's policy is to accrue for all items in excess of £5k.</p>	<p>This represents a control failure as this amount should have been accrued for. We are still completing our inquiries with management into this issue and will update the Governance Committee at the meeting.</p>

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £72.4m	<p>Other land and buildings comprises £4.6m of investment properties, which are revalued each year at fair value. The remainder of other land and buildings (£67.8m) are required to be valued at existing use value (EUV) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 1 April on a five yearly cyclical basis.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £43k.</p> <p>Management have considered the year end value of non-revalued properties and the potential valuation change in the assets revalued at 1 April 2018 using the in-house valuers knowledge of the asset base and local markets and conditions to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p>	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> <li>Our work is currently in progress on the challenge of assumptions used by the valuer and how management gain assurance that the assets are not materially different to current value at the year end</li> </ul>	<b>In progress</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Net pension liability – £61.7m	<p>The Council’s net pension liability at 31 March 2019 is £61.7m.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of its assets and liabilities derived from these schemes, utilising key assumptions such as life expectancy, discount rates and salary growth. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We:</p> <ul style="list-style-type: none"><li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This included gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. No issues were identified from our review of the controls in place at North Devon District Council; and</li><li>evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out.</li><li>Our work in this area is still in progress.</li></ul>	In progress

**Assessment**

● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

● We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic

● We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious

● We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Going concern

**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).

**Going concern commentary**

**Management's assessment process**

The Council has a Medium Term Financial Strategy (MTFs) that runs to 2022/23.

The CIPFA Code confirms that entities should prepare their financial statements on a Going Concern basis unless the services provided are to cease. There is no indication from Government that the services provided by the Council will cease.

**Auditor commentary**

Management have determined that there is no evidence of an intention to cease the provision of services, and have therefore adopted the going concern assumption. We have not identified any issues through our review and enquiries that suggest that this is not appropriate.

We have considered the Council’s MTFS as part of our work on the Value for Money Conclusion, and have concluded that the assumptions included within this plan appear to be reasonable.

We are satisfied that the going concern assumption is appropriate for the Council's financial statements and is in line with accounting standards and the CIPFA Code.

# 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
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the Governance Committee papers.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>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</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the response from the Pension Fund auditor at the time of writing this report.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements..</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided promptly..</li> </ul>

# Other responsibilities under the Code

	Issue	Commentary
1	<b>Other information</b>	<ul style="list-style-type: none"> <li>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.</li> </ul> <p>No inconsistencies have been identified.</p>
2	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
3	<b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold.</li> </ul>
4	<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of North Devon District Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

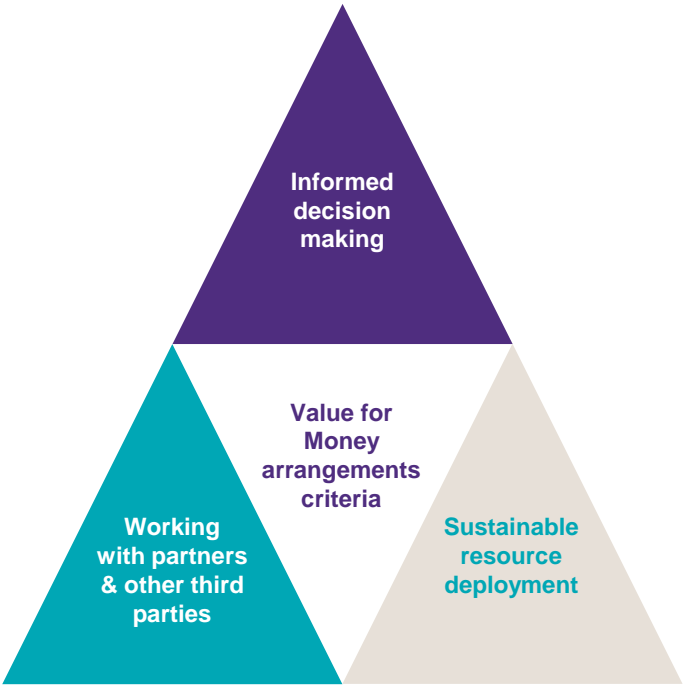
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 21 February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- How reasonable the assumptions made by the Council were in its latest Medium Term Financial Strategy
- What are the arrangements for monitoring and reporting on the 21:21 Transformation Programme.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 17 and 18.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.



## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<b>Financial sustainability</b>  The Council has recently refreshed its Medium Term Financial Strategy (MTFS). This shows a cumulative budget gap of £666k by 2022/23	<p>We reviewed the Council's latest MTFS, including the assumptions and the savings plans reflected within in it. We also considered the projected savings from the 21:21 Programme.</p> <p>The 2019/20 Budget and latest MTFS 2019/20-2022/23 were approved by Council in February 2019. The Council has got a robust strategic financial planning process in place, which is consulted on and involves members. Planning assumptions are reported as part of the decision making process and the Medium Term Financial Strategy (MTFS) is subject to regular review to reflect changing events. The assumptions included within the detailed MTFS have been considered and appear reasonable and based on the latest information available to the Council.</p> <p>The MTFS runs through to 2022/23, showing a budget gap of £666k over the 2020/21 to 2022/23 period. The MTFS already identifies potential schemes to bridge the gap but has not included them at this time as they are subject to further assessment and Council approval.</p>	<p>The Council's MTFS shows a budget gap of £666k over the 2019/20 to 2022/23 period.</p> <p>The Council have already identified potential schemes to bridge the gap.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</b></p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	<b>21:21 Programme</b>  The 21:21 Transformation Programme is a significant project for the Council and is critical to the way it will deliver its services in the medium term.	<p>We reviewed the progress being made on this key project for the Council, which cuts across the VFM sub-criteria. We also considered the savings achieved against those originally planned.</p> <p>21:21 is the Council's transformation programme and encompasses all of the projects the Council is progressing to change the way it delivers services and achieve savings, which is now in Phase 2. The core themes of the Programme are:</p> <ul style="list-style-type: none"><li>- Leaning and transformation of processes</li><li>- One Site</li><li>- Improve Waste and Recycling Service</li><li>- Income Generation</li></ul> <p>Following our recommendation last year, the Quarterly Performance and Financial Management Reports now include updates on the 21:21 programme, which pick up on particular developments. While there are also progress updates to members there is no formal reporting on the progress of the Programme as a whole.</p>	<p>The Council is making good progress with its 21:21 Programme and we do not consider that this is an issue that impacts on our VFM conclusion.</p> <p><b>However, the Council should further develop its reporting arrangements to ensure that there is regular reporting to members on the Programme as a whole. This should include details of whether schemes are delivering the savings that had been projected.</b></p>

# 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. 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## 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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing benefits grant	21,253	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 estimated to be £21,253 in comparison to the total fee for the audit of £36,499 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is an indicative fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related - None			




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified recommendations 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 2019/20 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
1	 <p>The Council's MTFS shows a budget gap of £666k over the 2019/20 to 2022/23 period.</p> <p>The Council have already identified potential schemes to bridge the gap.</p>	<p>The Council must continue to work to develop the potential schemes it has identified into realistic savings plans to bridge the budget gap of £666k over the 2020/21 to 2022/23 period.</p> <p><b>Management response</b></p> <p>The Council has already identified future potential options to bridge the budget gap; these had prudently not been included within the current Medium Term Financial Strategy (MTFS) as they are subject to further assessment and committee approval. Further work on these options will be carried out to bring them forwards and for inclusion in the refreshed MTFS that will be part of the 2020-21 Budget report to members in February 2020.</p>
2	 <p>The Council now reports on the 21:21 Programme within the Quarterly Performance and Financial Management Reports, but there is no reporting to members on the Programme as a whole</p>	<p>The Council should further develop its reporting arrangements on the 21:21 Programme to ensure that there is regular reporting to members on the Programme as a whole. This should include details of whether schemes are delivering the savings that had been projected.</p> <p><b>Management response</b></p> <p>We recognise that there has been formal reporting on the project with highlight reports through to Senior Management Team and presentations to both Full Council and Audit Committee; moving forwards we will produce a separate quarterly report to members on the 21:21 Programme and associated benefits that this is delivering for the Authority.</p>
3	 <p>Our cut off testing identified an invoice for landscape design at Capstone Hall of £6k that related to 2018/19 but had not been accrued for. The Council's policy is to accrue for all items over £5k.</p>	<p>The Council must review its procedures to ensure that all items that should be accrued for are identified and accounted for within the correct financial year.</p> <p><b>Management response</b></p> <p>The Council will review its procedures and communicate to Service areas to ensure they identify all items that should be accrued at year end are identified and accounted for within the correct financial year.</p>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of North Devon District Council's 2017/18 financial statements, which resulted in three recommendations being reported in our 2017/18 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	The Council must develop realistic savings plans to bridge the budget gap of £616k over the 2019/20 to 2021/22 period.	<ul style="list-style-type: none"><li>A balanced budget was set for 2019/20. The Medium Term Financial Strategy identifies budget gaps totalling £666k in 2020/21 to 2022/23, which have been considered as part of our VFM work.</li></ul>
2	X	The Council should introduce regular reporting to members on individual projects within the 21:21 Programme, and on the Programme as a whole. This should include details of whether schemes are delivering the savings that had been projected.	<ul style="list-style-type: none"><li>The Council include updates on individual projects within the Quarterly Performance and Financial Management Reports but still does not formally report on the Programme as a whole. The reports should consider whether the schemes are delivering the savings that had been projected or delivering other efficiencies.</li></ul>
3		Management should ensure that a detailed fair value review and assessment of all assets is undertaken by the valuer between the formal valuation date and the year end. This should take into consideration all movements in industry indices and local market conditions.	<ul style="list-style-type: none"><li>Our work in this area is still in progress.</li></ul>

Assessment  
✓ Action completed  
X Not yet addressed

# 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**

There are no adjusted misstatements.

**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.

Detail	Adjusted?
The audit fee for housing benefit certification is the 2017/18 amount of £13k. This should include the 2018/19 housing benefit certification fee of £21k. Management's view is that including the 2018/19 fee would have the effect of overstating the audit costs as the work will not be performed until the Autumn of 2019.	X
A number of presentational, grammatical and numerical adjustments were made to the financial statements to improve readability and disclosures and ensuring that they are in line with the current International Financial Reporting Standards.	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Reason for not adjusting
<div><div>1</div><div><b>Potential impact of the McCloud judgement</b> The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,039k. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</div></div>	<div><ul style="list-style-type: none"><li>The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.</li></ul></div>
<div><div>2</div><div>In our debtors work performed we have identified an error in the calculation of a prepayment, the prepayment was £2,670 greater than the amount included within debtors, this has the effect of understating debtors. We have extrapolated the error and the extent of the error is deemed to be £437,888.</div></div>	<div><ul style="list-style-type: none"><li>Original error is not material.</li></ul></div>

## Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements.

# Fees

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

## Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £36,499. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

## Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

### Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500
Pensions – IAS 19	July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	1,500
PPE Valuation – work of experts	July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

### Total Audit Fees

Audit fee	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	36,499	36,499
Additional Audit Fee (see above)	-	4,500
<b>Total audit fees (excl VAT)</b>	<b>36,499</b>	<b>40,999</b>

### Non Audit Fees

Fees for other services	Fees £
<b>Audit related services:</b>	
• Certification of Housing Benefit	21,253
<b>Total fees for other services</b>	<b>21,253</b>