

# The Annual Audit Letter for North Devon District Council

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**Year ended 31 March 2016**

OCTOBER 2016

**Elizabeth Cave**

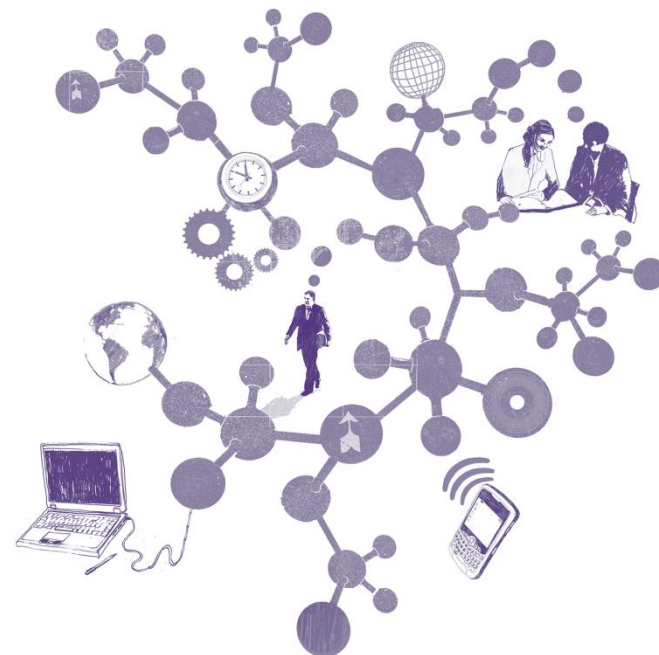
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at North 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 20 September 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 22 September 2016.

### **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 22 September 2016

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## **Certificate**

We certified that we had completed the audit of the accounts of North Devon District Council in accordance with the requirements of the Code on 22 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.

## **Other work completed**

We provided your teams with training on financial accounts and annual reporting.

## **Working with the Council**

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – delivery of the accounts audit in line with the agreed timetable
- VFM - we provided you with assurance and feedback on your arrangements for delivering efficiency, effectiveness and economy.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our sector insight via our National Reports.

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**  
**October 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 £1,048,000, 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 certain areas such as senior officer remuneration and auditor's remuneration.

We set a lower threshold of £52,000, 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.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period. 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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts 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.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• 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.</li> </ul> <p><b>We did not identify any issues to report</b></p>
<p><b>Valuation of pension fund net liability</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 audit work we have:</p> <ul style="list-style-type: none"> <li>• Documented the key controls that were 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.</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 your actuary.</li> </ul> <p><b>We did not identify any issues to report</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 22 September 2016, 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.

The key messages arising from our audit of the Council's financial statements were:

- the draft accounts were produced to a very good standard
- the audit was facilitated by good supporting working papers and excellent assistance from the financial services team

## **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 20 September 2016.

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

We are also 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.

## **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 did not identify any issues that required us to apply our statutory powers and duties under the Act.

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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 in September 2016, we agreed recommendations to address our findings:

- The Council should review its decision making processes and procedures to ensure that they are in line with the principles of good governance as set out in the latest CIPFA guidance "Delivering Good Governance in Local Government Framework – 2016 edition".

This review should include the efficiency of the governance arrangements in terms of officer attendance at meetings and the time taken from officers drafting a report to the decision being taken by the Executive.

- Leadership Team should only be considering confidential or sensitive issues that may require discussion before the formal Executive meeting. Other reports should go to the Executive and debate on the reports should be formally minuted.
- The Council should ensure that its review of the green waste service is complete and implemented for the 2017/18 financial year as the balanced budget forecast currently anticipates £340k savings from the review.

## 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>Medium term financial planning</b> Like all public sector bodies, the Council is facing financial pressures with cuts in central funding . There is a risk that, without careful financial planning, resources will be insufficient to fund the Council's activities in the medium term.</p>	<p>We reviewed the Council's latest Medium Term Financial Strategy (MTFS) and the 2016/17 budget, considering the assumptions that underpin the figures within them.</p>	<p>The 2016/17 Budget and latest MTFS were considered by the Executive on 2/2/16. The MTFS was updated for all of the latest information at this time and is based upon the indicative 4 year settlement from DCLG. The MTFS runs through to 2019/20, showing a budget gap of £180k in 18/19 and of £402k in 19/20. This is dependent on the achievement of savings, most notably from the review of the Works and Recycling which has anticipated savings of £340k in 2017/18. The other assumptions in the plan including business rates retention, grant funding levels, council tax income have been considered and appear reasonable. We are satisfied that the Council has proper arrangements in place for medium term financial planning. The Council must ensure that its review of the green waste service is complete and implemented for the 2017/18 financial year as the balanced budget forecast currently anticipates the £340k savings from the review.</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>
<p><b>Informed decision making</b> Some recent decisions have been subject to significant internal challenge, which have delayed the decision making process and resulted in the reasons for the decisions not being clear. There is a risk that Executive decision making is not efficient and transparent.</p>	<p>We reviewed key decisions made by the Council in 2015/16. We considered the decision making process followed and whether the documentation adequately supported the final decision.</p>	<p>Decisions are being made by the Executive, in line with the Council's Constitution, and there is a section in the minutes recording the reasons for the decisions which is good practice. However, the Leadership Team meetings appear to have become an unofficial part of the decision making process with most reports going through this group before being considered by the Executive, despite the Leadership Team not being a group referred to in the Constitution. This results in an inefficient decision making process due to increased officer time attending both Leadership and Executive meetings and lengthens the decision making process leading to delays, most notably the proposed Building Control Partnership with Mid Devon DC.</p> <p>Our review found that there is more debate over reports in the informal Leadership Team meetings than in the Executive. However, there are no formal minutes of Leadership Team meetings and Executive minutes record very little debate. Consequently the Council's decision making process is not sufficiently transparent and, while the reasons for decisions are formally recorded, the debate that led to this position is not in the public domain. There is a risk that the Executive could be perceived as confirming decisions that had effectively been debated in the private meeting.</p> <p>CIPFA/SOLACE have recently issued the publication "Delivering Good Governance in Local Government Framework – 2016 edition", with accompanying Guidance notes. This reinforces that one of the key principles is ensuring openness and comprehensive stakeholder engagement. The Council should review its decision making processes and procedures to ensure that they are in line with the principles of good governance as set out in the latest CIPFA guidance.</p> <p><b>We concluded that the risk was sufficiently mitigated for us to give an unqualified VFM conclusion as debate does take place and the Council's formal arrangements are in line with its Constitution. We have recommended improvements to the process to improve transparency.</b></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 8 days 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.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for the Council to review its decision making process and procedures to ensure that they are efficient and in line with the latest CIPFA guidance.

We provided regular audit and governance committee updates covering emerging issues and developments of relevance to the Council, including those from the National Audit Office (NAO) and CIPFA.

Thought leadership – we have shared our insights via our national publications. Areas we covered included:

- Innovation in public financial management
- Knowing the Ropes – Cross sector Audit Committee Effectiveness Review
- Making devolution work – A practical guide for local leaders
- Reforging local government – Our summary findings from financial health checks and governance reviews
- Advancing closure – sharing the lessons learned from our local government bodies who have advanced their financial reporting processes and closed their accounts early. We are holding a workshop on this topic in October which is being attended by members of your finance team

We have also 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. Your Head of Resources attended our income generation workshop in October.

Providing training – we provided your teams with training on financial accounts and annual reporting. The joint training with CIPFA was attended by members of your finance team.

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# Working with the Council

We will also continue to work with you and support you over the next financial year.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit
- Understanding your operational health – we will focus our value for money conclusion work on review of your decision making process and the Council's medium term financial planning.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	47,401	47,401	63,201
Housing Benefit Grant Certification	12,851	12,851*	17,617
<b>Total fees (excluding VAT)</b>	<b>60,252</b>	<b>60,252</b>	<b>80,818</b>

## Fees for other services

Service	Fees £
<b>Non-audit services</b>	<b>Nil</b>

\* This work is on-going and the final fee will be notified in the Certification Letter later this year.

## Reports issued

Report	Date issued
Audit Plan	May 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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