



Annual Audit Letter

Year ending 31 March 2018

North Devon District Council

17 August 2018



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Executive Summary

Purpose

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 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 14 August 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,097k, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 14 August 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 14 August 2018.
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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of North Devon District Council in accordance with the requirements of the Code of Audit Practice.

Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

The Council provided the draft accounts for audit in accordance with the earlier 31 May deadline.

Executive Summary

Working with the Council

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

- 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 thought leadership reports
- Providing training – we provided your teams with update training on financial accounts.

We would like to record our appreciation for the finance team and other staff for being so responsive and accommodating throughout our audit this year.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's accounts to be £1,097k, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £9k.

We set a lower threshold of £55k, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts, the narrative report and the annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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
<p>Management override of controls</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 identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgements and decisions made by management • tested journal entries • reviewed unusual significant transactions • reviewed significant related party transactions outside the normal course of business 	<p>Our audit work did not identify any issues in relation to the management override of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we</p> <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 the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register and that the individual changes can be supported by local knowledge. • 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>Our audit work did not identify any issues in relation to the valuation of property, plant and equipment.</p>

Audit of the Accounts

Significant Audit Risks (continued)

These are the significant 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
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work we:</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 assessed 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. Obtained assurance from the Pension Fund auditor at Devon County Council. 	<p>Our audit work did not identify any issues in relation to the valuation of the pension fund net liability</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 14 August 2018.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the earlier national deadline of 31 May, 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

We reported the key issues from our audit to the Council's Audit Committee on 14 August 2018.

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 in and alongside the Statement of Accounts.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of North Devon District Council in accordance with the requirements of the Code of Audit Practice. We certified that we had completed the audit of the accounts on 14 August 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

As part of our Audit Findings report agreed with the Council in August 2018, we agreed recommendations to address our findings:

- The Council must develop realistic savings plans to bridge the budget gap in the Medium Term Financial Strategy.
- 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.

Overall Value for Money 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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <ul style="list-style-type: none"> The refreshed Medium Term Financial Strategy (MTFS) shows a balanced budget position is shown for 2018/19 but that there are budget gaps in the next three years, with a cumulative budget gap of £616k by 2021/22. 	<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 2018/19 Budget and latest MTFS 2018-2022 were approved by Council in February 2018. 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 2021/22, showing a budget gap £616k over the 2019/20 to 2021/22 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 £616k over the 2019/20 to 2021/22 period.</p> <p>The Council must develop realistic savings plans to bridge the budget gap for the period of 2019/20 – 2021/22.</p> <p>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.</p>
<p>Delivery of 21:21 Transformation Programme</p> <ul style="list-style-type: none"> The 21:21 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 arrangements in place around this next phase of the transformation project, which is a significant project for the Council and the way that it will deliver its services. This included the revenue and capital implications of the programme, the monitoring of the project, and the reporting to members to inform decision making.</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"> - Leaning and transformation of processes - One Site - Improve Waste and Recycling Service - Income Generation <p>There is a Programme Team of officers who meet on a monthly basis. This group consists of all of the work-stream officer leads. As well as updates from the lead officers the group receives Highlight Reports on individual projects.</p> <p>While there appears to be adequate arrangements for the 21:21 scheme at an officer level, reporting to members is on an ad-hoc basis.</p>	<p>The Council's work on this area is in progress and we do not consider that this is an issue that impacts on our VFM conclusion.</p> <p>However, the Council needs to develop its reporting arrangements to ensure that there is regular reporting to members on individual projects within the Programme, and on the Programme as a whole. This should include details of whether schemes are delivering the savings that had been projected.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	August 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	47,401	47,401	47,401
Housing Benefit Grant Certification	13,387	13,387*	13,213
Total fees	60,788	60,788	60,614

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

* This is the scale fee for 2017/18. The final fee will be confirmed in the Annual Certification Letter

Fees for non-audit services

Service	Fees £
Audit related services	
- None	Nil
Non-Audit related services	
Productivity Plan for the Heart of the South West LEP - The work was commissioned and billed to Somerset County Council. We are obliged to inform you of this work.	35,750

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 non-audit services which were identified.
- We have considered whether non-audit 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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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