



# The Annual Audit Letter for North Devon District Council

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**Year ended 31 March 2019**

**15 August 2019**



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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 2019.

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 Governance Committee as those charged with governance in our Audit Findings Report on 22 July 2019.

## Our work

## 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.

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,153k, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
<b>Whole of Government Accounts (WGA)</b>	Work is not required on the Council's consolidation return as the Council does not exceed the threshold.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	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 31 July 2019.
<b>Certification of Grants</b>	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 2019. We will report the results of this work to the Governance Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of North Devon District Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

## Executive Summary

### Working with the Council

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

- An efficient audit – we delivered an efficient audit with you in July.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- 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 training on financial statements.

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**  
**August 2019**

# Audit of the Financial Statements

## 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 financial statements to be £1,153k, 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 £50k.

We set a lower threshold of £58k, above which we reported errors to the Governance 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 financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements 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 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 Financial Statements

## 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><b>Valuation of land and buildings</b></p> <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>	<p>As part of our audit work we have:</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> <li>Challenged the indices and assumptions used to review the fair value of other land and buildings and investment properties for the intervening period between the valuation date and the balance sheet date which is an 11 month time frame.</li> </ul>	<p>Our work identified that the fair value review has been undertaken between the formal revaluation date and the year end, but the original review had insufficient evidence to support the work carried out to arrive at the conclusion. A further evidenced review has been carried out that has enabled us to gain the required assurance over the fair value of the asset values at the balance sheet date. We recommended improvements for this process in 2019/20 in the action plan.</p> <p>The Council currently revalues its land and buildings as at 1 April each year as part of a rolling 5 year programme. We recommend that the Council changes its valuation date to 31 March – the balance sheet date.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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
<p><b>Valuation of net pension 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>As part of our audit work we have:</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> <li>considered the Council's arrangements in respect of the McCloud judgement and undertaken procedures to confirm the reasonableness of the actuary's estimate of the potential impact on the Council</li> </ul>	<p>Our work concluded that the actuary's estimate of £1,039k for the McCloud judgement should be adjusted for in the accounts. The Council opted not to adjust the accounts as it was not material.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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
<p><b>Management override of internal 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>As part of our audit work we;</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 did not identify any issues in relation to management override of controls.</p>



# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, 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 financial statements**

We reported the key issues from our audit to the Council's Governance Committee on 22 July 2019. A final updated Audit Findings Report was issued to Governance Committee members on 31 July 2019..

## **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 alongside the Statement of Accounts in line with the national deadlines.

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.

## **Whole of Government Accounts (WGA)**

We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of North Devon District in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

# 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## 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 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The Council has recently refreshed its Medium Term Financial Strategy (MTFS). This shows a cumulative budget gap of £666k by 2022/23</p>	<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>

## Value for Money conclusion (continued)

### Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>21:21 Programme</b></p> <p>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>	<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>

## 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 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

### Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	36,499	36,499	47,401
Additional fees	-	4,500	-
<b>Total fees</b>	<b>36,499</b>	<b>40,999</b>	<b>47,401</b>

### Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £36,499 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table opposite.

### Additional fees

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	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 have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
<b>Pensions – IAS 19</b>	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 to reflect this.	£1,500
<b>PPE Valuation – work of experts</b>	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
<b>Total</b>		<b>£4,500</b>

Fee variations are subject to PSAA approval.

## A. Reports issued and fees continued

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

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Certification of Housing Benefit	21,253
<b>Non-Audit related services</b>	
- None	Nil

### 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.

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance.
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards

### Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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