



The Annual Audit Letter for East Devon District Council

Year ended 31 March 2019

November 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 East 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 Audit and Governance Committee as those charged with governance in our Audit Findings Report on 24 October 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'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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.8 million, which is 1.9% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 25 October 2019.
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.

Executive Summary

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 25 October 2019.
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 and the Council's pooling housing capital receipts return. Our work on these claims is not yet complete and will be finalised by 31 January 2019. We will report the results of this work to the Audit and Governance Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of East Devon District Council in accordance with the requirements of the Code of Audit Practice on 25 October 2019.

Working with the Council

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

- 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 and annual reporting
- Supporting development – we provided workshops for the Governing Body and Audit Committee on the role of External Audit.

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
November 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 £1.8 million, which is 1.9% 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 £20,000.

We set a lower threshold of £90,000, above which we reported errors to the Audit and 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.

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>Valuation of land and buildings</p> <p>The Council revalues its land and buildings, other than housing revenue accounts assets, which are revalued annually, 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 (£326.3 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council'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</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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 evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end we have also reviewed your previous auditor's working papers to obtain assurance for the opening balances reported in the financial statements. 	<p>We raised a recommendation for the Council to document clearly the work undertaken to demonstrate that the carrying value of land and building assets not revalued during the year is not materially different from the current value.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council'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 (£65 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability 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 have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided by the Council 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 • 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 • 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 • 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 • 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 • we also reviewed your previous auditor's working papers to obtain assurance for the opening balances reported in the financial statements. 	<p>Our work concluded that the actuary's estimate of £1,202k for the McCloud judgement should be adjusted for in the accounts.</p>

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>Management override of internal 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. . The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how performance is reported.</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 completed:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work identified that there is no formal process in place for the authorisation of journals. This is due to the small size of the finance team and the limited number of people able to post journals. No issues were identified in our testing of journals.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 25 October 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline. The finance team responded promptly and efficiently to our queries during the course of the audit. The amount of testing of the Council's asset valuations and pensions liability has increased significantly this year and a small number of issues in respect of audit testing required additional fees to be charged.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Governance Committee on 24 October 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 in 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 carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

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 have not exercised these powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of East Devon District Council in accordance with the requirements of the Code of Audit Practice on 25 October 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.

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.

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 Risks identified in our plan

Future Financial Sustainability

Local Government funding continues to be stretched with increasing cost pressures from the national pay award, inflation and new homelessness legislation and demand for services. The Medium Term Financial Plan identifies a funding gap of £0.665m for 2019/20 rising to £4.8 million by 2028/29 if no corrective action is taken. To address this shortfall the Council has adopted a Transformation Strategy which sits alongside the Financial Plan, this outlines how the Council will continue to deliver key priorities in the context of reducing government funding and increasing demand for services.

Many local authorities have changed their approach to managing reductions in income, shifting away from reducing spending on services to looking for other savings and sources of income. As part of the Transformation Strategy, you are developing an Asset Investment Strategy to develop alternative sources of income to offset reductions in funding and increasing demand for services.

The 2018/19 budget was presented to Cabinet on 3 January 2018, identifying the need to deliver savings of £665,000, including unidentified savings of £70,000. At month 6, the Council is predicting an overspend of £327,000, which will be met by the use of reserves.

We will review performance against budget and final outturn. We will consider arrangements for monitoring and reporting the financial position and the assumptions used in producing the Medium Term Financial Plan. We will also consider progress towards delivering transformation priorities

Findings

- The Council's original net revenue budget for 2018/19 was £14.57 million. This was predicated on savings incorporated into the budget of £0.67 million and the use of £0.14 million general fund reserves to balance the budget. The budget included an increase in council tax of £5, the maximum increase before triggering a referendum.
- The final outturn position reported an overall underspend of £0.27 million against the original budget and therefore an increase in general fund reserves of £0.42 million to that initially budgeted, with no draw down on these reserves required. The main reasons for this reported underspend relate to variations in areas including car park income, staff vacancies and recycling income. The underspend is less than 2% of the original planned budget and therefore represents good financial monitoring throughout the year.
- The draft accounts presented for audit reported total usable reserves of £30.82 million, including £3.94 million general fund reserves. This represents an increase in the general fund reserves from the prior year of £0.27 million. This level of reserves is above the Council's minimum general revenue balances policy.
- The HRA budget overspent by £0.23 million against the initial planned surplus position of £1.41 million. The main reason for this was in relation to responsive repairs being overbudget. A new maintenance contract has been implemented in 2019/20 which is based on a fixed price per property which is expected to control these costs going forward.

Key findings Continued



- The Council's main savings areas in 2018/19 were in relation to the implementation of green waste scheme and organisation fit for purpose scheme. The income from green waste was not as high as budgeted however, this was offset by additional recycling income. The organisation fit for purpose scheme and the council's investments achieved the budgeted savings / increase in income.
- At the February 2019 Full Council, a net revenue budget of £15.27 million was approved. As in the prior year an increase of £5 in Council Tax was approved.
- Looking forward, the 2019/20 budget incorporated savings of £0.41 million which includes additional income from property investments. The Council are on track with this, with the first property in the commercial investment portfolio currently being finalised. The Council will need to further invest in this area going forward to achieve the planned additional income over the medium term. The organisation fit for purpose scheme continues to be an area of focus for the Council, with significant proportion of the savings required being in this area.
- The medium-term position for the Council is more uncertain. There is no confirmed Government funding plan in place for 2020/21 and beyond due to the impact of Brexit and the impact of the delay of the business rate retention plan and the Fairer Funding Review.
- The Council's transformational strategy supports the Council in closing the budget gap identified within the MTFs from 2020/21. A number of transformation savings have been agreed, with significant additional income expected to be created from further investment in commercial property. A number of other proposals have now been approved to close the budget gap in the medium term.

Overall, the Council has appropriate arrangements in place for financial sustainability, However, we recognise the increased pressures the Council face going forward and importance of continued close in-year monitoring of budgets.

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	March 2019
Audit Findings Report	October 2019
Annual Audit Letter	November 2019

Fees

	Planned £	Actual fees £
Statutory audit	39,132	46,632
Housing Benefit Grant Certification	12,000	12,000
Total fees	41,132	58,632

Fees for non-audit services

Service	Fees £
Audit related services	£3,000
- Pooling Housing Capital Receipts	

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.

A. Reports issued and fees

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £39,132 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 following table. All fee proposals are to be agreed with PSAA.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	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
Pensions – IAS 19	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
PPE Valuation – work of experts	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
Other matters	<p>We encountered a number of other issues which required additional time to resolve, these related to:</p> <ul style="list-style-type: none"> • Delays caused by Council staff availability delaying the start of our interim audit • Additional time required to obtain reconciling populations for grants, debtors, creditors and housing benefits • Bank reconciliation issues • Work required to confirm that property not revalued during the year was not materially misstated, and to resolve errors identified. • Resolution of errors identified from the movement in reserves statement 	To be discussed further with management.
Total		£4,500



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