

The Audit Findings for East Devon District Council

Year ended 31 March 2020

9 March 2021



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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 the East Devon District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<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"> • give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and • 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. <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 remotely during July 2020 to March 2021. Our findings are summarised on pages 6 to 15. Audit adjustments are detailed in Appendix C. We have 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 in the following areas remains in progress:</p> <ul style="list-style-type: none"> • evaluation of the approach adopted to the valuation of Council Dwellings and adjustments posted, including response from our own external valuation expert; • review of management's cashflow forecasts to April 2022; • receipt of a response to a query on HRA expenditure; • receipt of the signed management representation letter (on the agenda); and • review of the final set of financial statements and Annual Governance Statement. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Subject to satisfactory conclusion of the points above, our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of land and buildings and investment properties – refer to page 8 for further detail. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations.</p>
Value for Money arrangements	<p>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').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that East Devon District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18 to 21.</p>

Headlines (continued)

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties as described to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code, however, the areas outlined on page 3 are still to be concluded. Following their completion, we expect to be able to issue our certificate alongside our audit opinion.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has dealt with the administration of grants to businesses, staff re-deployment, closure of car parks, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.

Councils are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in May 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Restrictions on non-essential travel have meant both Council and audit staff have had to work remotely throughout the audit, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing. Remote audits have taken longer than we would normally expect an audit to take and we have seen this around the country.

We started our audit on 13 July 2020 using the Council's trial balance. The Council's financial statements were provided on 10 August 2020, in advance of the revised national deadline. As expected, the finance team has been stretched throughout lockdown, producing the accounts and dealing with audit queries, alongside the "day job" and the requirements of additional government returns, and internal reporting. There are some areas where working papers could be improved, and we have discussed these with management throughout the audit. The finalisation of the audit has taken a particularly long time, due in part to challenges with capacity within the finance team.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 auditors 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; and
- 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 our audit plan, as communicated to you on 26 March 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries on page 3 being satisfactorily resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E.

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 levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for East Devon District Council.

	£,000	Qualitative factors considered
Materiality for the financial statements	1,840	The Council operates in a stable, publicly funded environment.
Performance materiality	1,380	75% of materiality, no history of deficiencies or large number of misstatements.
Trivial matters	92	Level set for reporting errors or omissions to TCWG.
Materiality for Senior Officer Remuneration	20*	Public sensitivity in the pay of senior officers in the public sector.

*We reported a materiality level for Senior officer remuneration of 1.9% of the amount disclosed for Senior Officer remuneration in our audit plan. Upon receipt of the draft financial statements this was calculated to be £20,000.

Significant audit risks

Risks identified in our Audit Plan

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements could require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk.

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. As previously noted, we received draft financial statements in advance of the revised national timetable;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. An example is in respect of the material valuation uncertainty disclosed by the Council's valuation experts in respect of land and buildings and investment properties;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

The Covid-19 pandemic resulted in land and building and investment property valuations being reported on a 'material uncertainty' basis. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations. This is also the case and needs to be reported for investment property held by Devon Pension Fund on behalf of East Devon District Council.

We reviewed management's other estimates and judgements in light of the Covid-19 pandemic and concluded that these were reasonable.

The audit was completed remotely which resulted in certain challenges and work taking longer than we would have expected in normal conditions.

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Significant audit risks continued

Risks identified in our Audit Plan

Management override of controls

Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk.

Auditor commentary

We:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk and 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; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Findings

We have raised a control recommendation in Appendix A in respect of journals.

Our testing of journal entries made in year did not identify any issues.

Management made disclosure adjustments to some of the critical judgements disclosed in the financial statements to ensure that it was clear what the judgements were and why they were appropriate.

Valuation of pension fund net liability

The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£63.4m) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

We:

- 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 evaluated 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;
- 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; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report.

Findings

There were some classification adjustments made to the pensions note to ensure that the figures agreed to those in the actuary's report. No other issues were identified from our testing.

Significant audit risks continued

Risks identified in our Audit Plan

Valuation of land and buildings

The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. Investment properties are valued annually. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£244.9m for Council Dwellings, £88.9m for other land and buildings and £3m for investment properties) and the sensitivity of the estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We identified the valuation of land and buildings (including Council Dwellings) and investment properties as a significant risk.

Auditor commentary

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation experts;
- wrote to the valuers to confirm the basis on which the valuations were carried out;
- tested the sampled revaluations made during the year to see if they had been input correctly into the Council's asset register;
- selected a sample of in-year valuations to test.
- challenged the information and assumptions used by the valuers for the sampled assets to assess completeness and consistency with our understanding once we received the calculations; and
- 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.

Findings

Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the land and buildings and investment property valuations to the balance sheet and the caveat made by the valuers in their valuation reports, we will highlight the material uncertainty in our audit report in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosures made in the statement of accounts in Note 4, which was enhanced as part of the audit.

The EOM paragraph does not qualify the opinion but refers to management's disclosure on the material uncertainty that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

In February 2021 we received management's paper on the valuation approach taken for Council Dwellings in 2019/20. Council Dwellings have been uplifted by a specific percentage, rather than having been formally valued by the District Valuer, which is against the requirements of the CIPFA Code which state a professional valuer should be used for valuation purposes. We have raised a recommendation in respect of this in Appendix A.

We have engaged our own valuation expert to review the index applied to ensure that this is appropriate and we are awaiting their response to these queries.

Other audit risks

Risks identified in our Audit Plan

IFRS 16 implementation has been delayed by one year


Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Auditor commentary

In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 was not included.

We recommended that management add the disclosure to the statement of accounts which they agreed to.



Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<p>Land and Buildings - £88.9m</p>	<p>The Council used its internal valuer to complete the valuation of its land and buildings as at 31 December 2019 as part of its five yearly cyclical basis. 81%, by value, of total assets were revalued during 2019/20. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2019 and those valued in earlier years, based on the market review provided by the valuer as at 31 March 2020, 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 property values.</p> <p>In line with nationally issued RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its 'Assumptions made about the future and other major sources of estimation uncertainty' disclosure in the Statement of Accounts.</p>	<p>We have assessed the Council's valuer to be competent, capable and objective.</p> <p>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings.</p> <p>We confirm consistency of the estimate against the expectation derived by the audit team through the use of our auditor expert, Gerald Eve, and concluded that the movements and potential movements for non-valued assets were reasonable with no material issues arising.</p> <p>We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate.</p> <p>We have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p>	<p style="text-align: center;"> Green</p>





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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £244.9m	The Council is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.	<p>As a result of Covid-19 the Council were advised by the District Valuer that the revaluation of Dwellings would not be performed as usual and that a desktop application of indices would be actioned.</p> <p>Council's management, with guidance from the District Valuer, have performed the indexation exercise themselves. This goes against the requirements of the CIPFA Code and we would recommend that the Council undertakes a full valuation performed by a qualified valuer at 31 March 2021.</p> <p>We received a response from management on the rationale and approach adopted to the valuations in February 2021. We have engaged our own valuations expert to consider the index and approach and are currently awaiting their response.</p> <p>Our proposed audit opinion will also include an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue. This material uncertainty covers the unusual valuation process utilised for 2019/20.</p>	 Red
Investment properties - £3m	The Council's Investment property was purchased in year and revalued at the 31 March 2020 for inclusion in the Balance Sheet. Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19.	<p>We have assessed the Council's valuer to be competent, capable and objective.</p> <p>We reviewed the valuation performed by the valuer, with reference to the comparative properties and information used by the valuer in undertaking their valuations and considered these to be appropriate.</p> <p>We agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p> <p>The Council did not distinguish the material uncertainty in relation to Investment property in its disclosures. We recommended that the valuation of investment property, including the material uncertainty, be included in the note regarding material estimates.</p>	 Green

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 and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																											
Net pension liability – £63.4m	<p>The Council's net pension liability at 31 March 2020 is £63.4m (PY £65.4m). The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been a £6.8m net actuarial gain during 2019/20.</p>	<p>We have assessed the Council's actuary, Barnett Waddingham LLP, to be competent, capable and objective.</p> <p>We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.</p> <p>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:</p>	 Green																											
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Inflation (RPI/CPI)</td> <td>2.7% 1.9%</td> <td>2.65%-2.8% 1.85%-1.95%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>Between 1.85%-1.95%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>Between 2.85%-2.95%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>Pensioners: 22.9 years Non-pensioners: 24.3 years</td> <td>21.4 – 23.2 22.8 – 24.7</td> <td rowspan="2" style="text-align: center;">● GREEN</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>Pensioners: 24.1 years Non-pensioners: 25.5 years</td> <td>23.7 – 24.7 25.2 – 26.2</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	● GREEN	Inflation (RPI/CPI)	2.7% 1.9%	2.65%-2.8% 1.85%-1.95%	● GREEN	Pension increase rate	1.9%	Between 1.85%-1.95%	● GREEN	Salary growth	2.9%	Between 2.85%-2.95%	● GREEN	Life expectancy – Males currently aged 45 / 65	Pensioners: 22.9 years Non-pensioners: 24.3 years	21.4 – 23.2 22.8 – 24.7	● GREEN	Life expectancy – Females currently aged 45 / 65	Pensioners: 24.1 years Non-pensioners: 25.5 years	23.7 – 24.7 25.2 – 26.2	
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		<p>We are finalising our procedures in respect of the net defined pension liability and the recognition of the transactions and balances in the financial statements of East Devon District Council. We are also awaiting receipt of a letter of assurance from the auditor of Devon Pension Fund in respect of the processes and controls in place at the Pension Fund covering the information that is supplied to the actuary.</p>																												

Significant findings – 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’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be a going concern where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

Auditor commentary

We have subjected the 2020/21 budget and Medium Term Financial Strategy to 2031 to detailed scrutiny and reviewed the planned budget proposals for 2020/21 in our consideration of the appropriateness of management’s use of the going concern assumption.

The Section 151 officer has produced an assessment of the Council’s use of the going concern assumption. We have reviewed this and the underlying support and concur with the opinion that the going concern basis is appropriate.

In only exceptional circumstances would we expect a local authority not to prepare its accounts on a going concern, in line with the Code and the public sector adoption of the going concern assumption.

In 2020/21 the Council expects to achieve a balanced budget. At 31 March 2020 the Council’s usable reserves stood at:

- General Fund - £16.8m (of which non-earmarked General Fund is £6.4m). This represents 18% of the annual gross cost of the provision of services.
- HRA - £9.1m. This represents 82% of the gross HRA expenditure.

The Council had £39.2m of short term cash and investments which represents over 3 years of net cost of services expenditure. The Council therefore has access to cash to meet its bills. It also has sufficient borrowing headroom within its borrowing limit as set out in its Treasury Management Strategy.

The Covid-19 pandemic has resulted in a reduction of income in 2020/21, some of which has been covered through government support. This shows an overall projected overspend of £1.2m (9.3% of the total Budget of £12.6m for 2020/21). This position is after taking into account the £1.7m Government Grant that the Council has received for Covid-19.

The HRA budget is currently predicted to be £0.5m underspent against the original net budget of £0.9m surplus.

The Council has an adopted range for the General Fund Balance to keep within £3m to £3.8m. The predicted balance is currently within this range and any required action can be taken at year end.

Conclusion

Management did not disclose any material uncertainty about the Council’s ability to continue as a going concern and our audit procedures led us to conclude that was appropriate. However we recommended that the Council add further disclosures around the Council’s going concern position and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.

We have received management’s cash flow forecasts to April 2022 and are currently reviewing these.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, which is included in the Committee papers. Specific representations have been requested over the prior period adjustments that were identified.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment institutions. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
Disclosures	Further information on disclosure changes arising from our audit can be found in Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management have been provided, with the exception of the final outstanding items listed on page 3. The finalisation of the audit has taken a significant amount of time, due in part to capacity issues within the finance team.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>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 consistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified to date. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p> <p>Best practice reporting in the AGS would include the following items:</p> <ul style="list-style-type: none"> • reference to governance arrangements within partnerships and joint working; • reference to Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014); and • reference to role of Head of paid service. <p>The Council should also include details of its risks and opportunities and non-financial performance in future Narrative Reports.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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; and • if we have applied any of our statutory powers or duties. <p>We have not identified any requirement to exercise our statutory powers. We need to review the final version of the Annual Governance Statement.</p>
Specified procedures for Whole of Government Accounts	<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> <p>Detailed work is not required as the Council does not exceed the audit threshold set by the NAO, and we will issue our assurance return on this basis.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of East Devon District Council in the audit report, as detailed in Appendix E.</p>

Value for Money

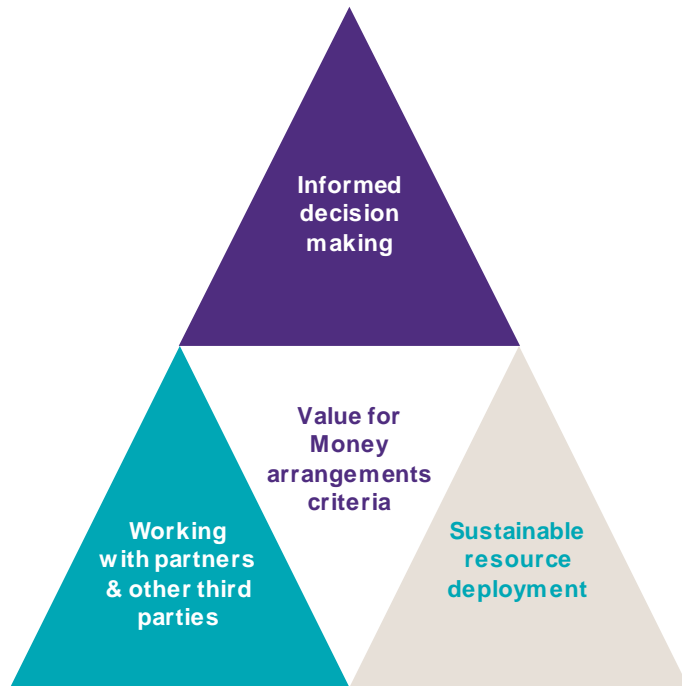
Background to our VFM approach

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 April 2020. 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 March 2020 and identified one significant risk in relation to the Council's financial sustainability using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 26 March 2020.

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.

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's arrangements for setting its 2019/20 budget and medium term financial strategy;
- how these evolved through discussion and reporting;
- the Council's monitoring and flexing of the budget through 2019/20;
- the Council's 2019/20 financial outturn; and
- the Council's response to the Covid-19 pandemic on its income and expenditure streams.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 21.

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.

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.

Value for Money (continued)

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.

Financial outturn and sustainability

The Council's original 2020/21 Budget proposal shows a shortfall of £0.7m for 2020/21 rising to £2.3m in 2021/22.

At 31 March 2019, the Council had General Fund Reserves of £12.6m and Housing Reserves of £7.8m, the General Fund balance represents 4.4% of the Council's gross cost of services.

All non-statutory services are under pressure to deliver savings and there is a risk that the Council could fail to set balanced budgets in the future.

Findings

The Council set out its Transformation Strategy and Financial Plan (2019-2029) in October 2018. This set out a projected deficit for the Council's General Fund in 2019/20 of £0.7m and forecast a cumulative budget shortfall to 2028/29 of £4.6m.

The Transformation Strategy identified an approach to addressing the longer term financial challenges, including a significant shortfall of £2m projected for 2020/21 resulting from a presumed rebasing of business rate income. The actions identified in the Transformation Strategy for 2019/20 bridged the predicted budget deficit to within £0.3m of a balanced budget, this included a savings target of £0.25m under the heading of "fit for purpose".

In February 2020, the 2019/20 General Fund budget adopted by Cabinet proposed a budget with a net General Fund revenue spend of £15.2m, with a requirement to use £0.24m from the General Fund balance.

The budget was monitored throughout 2019, and at Month 5 the Council was forecasting an underspend of £0.2m arising from increased car park income and staff cost savings across the Council.

2019/20 Out-turn

The final year end outturn position resulted in an underspend of £2.7m against the net budget of £15.2m, the major factors leading to this were:

- Business Rates gain from over-prudent prediction - £2.5m
- Employee cost savings - £0.25m
- Devon Business Rates Pool gain - £0.3m
- Strata savings - £0.2m
- Shortfall in planning fees - (£0.4m)

The General Fund balance at £6.4m at 31 March 2020 represents 10% of the Council's net budget.

With the General Fund balance being £2.6m above the adopted range (and £3.4m above the minimum sum required to be held) it was proposed that £2m be transferred to the Medium Term Financial Plan Risk Reserve to allow the Council to manage any future budget shortfalls or unexpected events.

Value for Money (continued)

Financial outturn and sustainability

Findings (continued)

Impact of Covid-19

The direct effect of Covid-19 on the Council's finances was presented in July 2020 and this set out an estimated in-year deficit of £4.5m for 2020/21. Possible reductions in Council Tax and Business Rates income would further affect the 2021/22 budget. Management reported the position was an improvement on the initial assessment contained in a briefing note to members in April 2020. Key income areas, particularly car parking, had returned quicker than expected and there was more support from Government than initially expected. The remaining in year gap needed closing and the options presented included the following:

- use of General Fund balance;
- use of savings from carbon reduction/streetscene;
- diverting New Homes Bonus funding from capital to revenue, noting that this would need to be replaced with PWLB borrowing which would incur further future revenue costs;
- utilise the 2019/20 windfall sum available of around £2.5m from the additional business rate income; and
- use of repurposed earmarked reserves.

The Council's MTFP was revisited in September 2020 and forecasts a projected deficit for 2021/22 of £0.7m which then increases, reaching £5.7 by 2030/31. Clearly this is an unsustainable pattern and not one that the Council will allow. This updated MTFP is in line with previous assessments and reports to Council and over the three years to 31 March 2024 the Council has an underlying cumulative shortfall of £1.8m. The Council is proposing to use the income from additional rates to close the budget gap, whilst the Council identifies savings to address the 2021/22 shortfall of £0.7m.

Auditor view

As the reserves position at 31 March 2020 shows, East Devon District Council has robust procedures to set, monitor and deliver its financial plans and the Council has accumulated a good level of reserves to meet those plans. The Council has an adopted range for the General Fund balance to be within £3m to £3.8m, and at year end the balance was greater than this. Future projections show funding shortfalls, however the Council has the time and financial headroom to consider its response to these future challenges.

As such, we propose to issue an unqualified Value for Money conclusion for 2019/20.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.




	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£12,000*	Self-interest, self-review, management	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 £12,000 in comparison to the originally proposed fee for the audit of £40,271 and in particular relative to Grant Thornton UK LLPs turnover overall. We do not prepare the return, and do not expect material changes to arise from the work that would affect information in the financial system. We report factually, based on the instructions and any decisions on amendments to returns are for the Council to make, in discussion with the relevant government body. These factors all mitigate the perceived self-interest, self-review and management threats to acceptable levels.
Agreed upon procedures in respect of the Council's pooling of housing capital receipts return	£5,000	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 not expected to be significant in comparison to the total fee for the audit and in particular is not significant relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Prior year housing capital receipts return certification	£9,000		
Non-Audit related			
Place Analytics	£6,000	Self-interest, (because this is a recurring fee)	The fee is a subscription fee. The fee for this work is negligible in comparison to Grant Thornton UK LLPs turnover overall and the Council's audit fee. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level.

*proposed fee, our work has yet to be finalised on the Council's Housing Benefits Subsidy return for 2019/20.

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 Councils S151 Officer. None of the services provided are subject to contingent fees.

Action plan

We have identified three 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 2020/21 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
 Red	<p>As a result of Covid-19 the Council were advised by the District Valuer that the revaluation of Dwellings would not be performed as usual and that a desktop application of indices would be actioned. Council's management, with guidance from the District Valuer, have performed the indexation exercise themselves.</p> <p>The CIPFA Code sets out the requirements for the valuation of land and buildings, including Council Dwellings. The Code is clear that management should not apply indices to derive asset valuations. As an area of key estimation, management should ensure that they follow the requirements of the CIPFA Code for future property valuations.</p>	<p>We would recommend that the Council undertakes a full valuation performed by a qualified valuer at 31 March 2021.</p> <p>Management response As per the councils revaluation policy, housing assets are valued on a five year rolling programme in which one fifth of the authorities' individual beacon sites are visited, revaluing all beacons with the 5 year timeframe.</p>
 Amber	<p>Our testing of year end balances identified that there were historical items included in the ledger that should have been written off in accordance with the Council's policies.</p> <p>There is a risk that Council is not adhering to its financial policies and that the financial statements include balances that should no longer be recognised.</p>	<p>We recommend that the Council review its Balance Sheet to ensure that balances are written off as appropriate.</p> <p>Management response Balance sheet review will be undertaken in line with that incorporated into the closedown timetable.</p>
 Green	<p>Best practice reporting in the AGS would include the following items:</p> <ul style="list-style-type: none"> reference to governance arrangements within partnerships and joint working; reference to Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014); and reference to role of Head of paid service. <p>The Council should also include details of its risks and opportunities and non-financial performance in future Narrative Reports.</p>	<p>We recommend that the Council makes reference to the identified best practice items in future Annual Governance Statements and narrative Reports.</p> <p>Management response The identified items will be included in future reporting.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of East Devon District Council's 2018/19 financial statements, which resulted in the following recommendations being reported in our 2018/19 Audit Findings report. We set out below the progress made against each of these.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	It is a requirement that the carrying value of property, plant and equipment is not materially different from current value, and although the Council does revalue a significant proportion of its assets during each year, there is no formal process in place to assess whether for land and buildings not revalued at 31 March 2019, the current value is not materially different from the carrying value.	The Council's valuer has assessed the carrying value of its land and buildings at 31 March 2020 and confirmed that there is no material variation. We have reviewed the valuation of the Council's land and buildings and have reported our findings elsewhere in this report. Management should continue to engage valuation experts to review assets not formally valued in year to establish if there is a possibility of material misstatement.
✓	Although the council has a day to day bank reconciliation in place there is no structured process which at the year-end fully traces the Cash at Bank figure in the financial statements through to the bank balance on the bank statement that fully investigates and documents reconciling items.	Bank reconciliation was tested. We identified a prior period adjustment in respect of the bank overdraft as previously reported.
X	While no issues impacting the Net Financial Position or Net Expenditure of the council were identified, a number of omissions and inconsistencies were found during the audit, predominantly impacting the notes to the financial statements.	We identified various presentational issues as set out in Appendix C. These adjustments impacted on the Council's main financial statements and we would expect these would have been identified by internal quality review prior to presentation of the draft financial statements to audit.
X	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.	This is still the case. Our review of journals included a full review of journals input by senior staff. No issues were identified in our testing of journals in 2019/20, however lack of authorisation still means that there is a risk of fraudulent or erroneous journals being posted.
✓	Various IT controls recommendations were made following our prior period audit.	Management have provided commentary that shows progress has been made against all recommendations.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit adjustments

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.

Disclosure	Detail	Adjusted?
Comprehensive Income and Expenditure Statement	The original draft accounts contained casting errors in the CIES. In the net cost of services section of the statement, all rows were shown against the heading one lower than they should have been, and as such the totals did not cast. This meant that the correct HRA values not reported in the CIES at all. All lines were affected (e.g. originally, 'Corporate Business' was shown as all zeros, and 'Corporate Services' was shown as £143k. The £143k actually related to 'Corporate Business', and so on).	Y
Comprehensive Income and Expenditure Statement / Cash Flow Statement	Our audit identified that the Council had incorrectly treated Major Repairs expenditure as a disposal in year rather than writing the value out as part of the revaluation of its Housing assets. Whilst there was no impact on the Council's General Fund, a number of classification adjustments were posted in the Comprehensive Income and Expenditure Statement and Cash Flow statement, with an adjustment of £4.8m in 2019/20. For the financial year 2018/19 an adjustment of £4.9m has been processed as a prior period adjustment in respect of the same issue. Various notes were also impacted by the changes above, with the adjustments flowing through notes 7, 7a, 8, 8a, 9, 11, 24, 34.4 and HRA note 4.	Y
Movement in Reserves Statement	'General Fund Total' and 'Housing Revenue Total' columns added to MiRS as a requirement of the CIPFA Code.	Y
Balance Sheet	An additional line was added to the Balance Sheet to separately report the value of Investment Properties (£3,000k) from the remaining Property, Plant and Equipment assets held by the Council (£358,330k). They were originally reported in the same line. This adjustment was also processed in the valuation table in Note 24.	Y
Balance Sheet / Cash Flow Statement	An additional line was added to the Balance Sheet to separately report the value of the Council's bank overdraft (£2,534k) from its other short term borrowing (£4,792k). They were originally reported in the same line. The adjustment was also made to the prior period for the bank overdraft of £2,077k. This also meant that there were adjustments to the cash flow statement to ensure that the net cash position (excluding bank overdraft) was the starting and ending point of the cash flow statement. The movement in bank overdraft between 31 March 2019 and 31 March 2020 of £458k was originally reported as 'Cash Receipts of short term and long term borrowing' in the cash flow statement. This movement was removed in the final version.	Y

Audit adjustments

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.

Disclosure	Detail	Adjusted?
Cash Flow Statement	The original Cash Flow Statement showed £9,016k of cash receipts from the disposal of property, plant and equipment. This was updated to show £11,030k to ensure that the value matched the Movement in Reserves Statement and the actual receipts in year. The other side of the adjustment affected the 'Disposal of Assets' line in the Cash Flow Statement.	Y
Significant estimates	There was no disclosure of the material estimation uncertainty relating to investment properties held by the Council or by the Pension Fund Administering Authority on behalf of the Council. These disclosures were made in the updated statements and were required as a result of the disclosures made by valuation experts in accordance with RICS requirements arising as a result of the Covid-19 pandemic.	Y
Accounting policies	Accounting policy 1.16 states investment properties are valued via a 5 year rolling programme. They should all be valued annually at 31 March in accordance with the Code requirements. The Council's investment property was valued in year and hence this is a disclosure issue not an issue with the Council's actual policy.	Y
Note 2. Accounting Standards issued, Not Adopted	Note 2: Accounting standards not adopted should make reference to IFRS16 and its deferral	Y
Note 3. Critical Judgements in Applying Accounting Policies	The original disclosure relating to the leisure centre contract did not show why the Council arrived at its judgement over the adopted accounting treatment. This disclosure was made in the final version of the financial statements.	Y
Note 7 EFA	The note did not meet the requirements of the Code in that it doesn't reconcile to the total general fund balance (including earmarked reserves). Additional lines were added to the statement to complete this reconciliation.	Y
Note 9 Adjustments between Accounting basis and funding basis	The disclosures in respect of pension adjustments in the pensions note and the pensions reserve reconciled, however the movements shown in the movement in reserves statement were lower: "Items related to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES" = £436k lower in the MiRS "Employer's pensions contributions and direct payments to pensioners payable in the year" = £126k lower in the MiRS	N - unadjusted
Note 11	The line 'Gain/loss on disposal of non-current assets' was originally shown as £4,851k. This related to prior year values, and should have been stated as £2,833k. Note that the £2,833k was subsequently updated as a result of the adjustment reported previously in respect of HRA valuations/disposals accounting.	Y

Audit adjustments

Misclassification and disclosure changes

Disclosure	Detail	Adjusted?
Note 19 Defined Pension liability	<p>A reclassification of £1,230k was made between the lines 'Current Service Cost' and 'Past Service Cost' on page 60 to ensure that they matched the IAS 19 report. The sum of the two lines remained unchanged.</p> <p>The original draft financial statements on page 60 showed the experience (gain)/loss of £1,082k to be negative (a gain) however this was actually positive (a loss).</p> <p>The note was updated to state that impact of the McCloud judgement has been incorporated into actuarial valuation at 31 March 2020.</p>	Y
Note 28. Financial Instruments	<p>A new disclosure was added to the financial statements setting out the Council's financial instruments and their respective category. This also identified those items within debtors and creditors that do not meet the definition of a financial instrument in accordance with the Code requirements.</p> <p>Debtors and creditors were originally disclosed as Level 3 on the Fair Value hierarchy. The Council adjusted these to Level 2 based upon their inputs.</p> <p>The Council also updated the fair value disclosure in respect of PWLB borrowings from £118,526m to £96.572m to ensure that this matched the valuation, based on the New Loan Rate, provided by their valuation experts.</p>	Y
Note 29. Debtors and Payments in Advance	<p>The disclosure note classifications were updated from organisation type (such as 'Central Government Bodies', 'Other Local Authorities' etc) to the type of debtor/creditor (such as 'Council Tax and Business Rates' and 'Trade Receivables' or 'Trade Payables') in order to be in compliance with Code requirements.</p>	Y
Note 31. Creditors and Receipts in Advance	<p>Whilst the individual line values therefore changed, the total of the notes remained the same.</p>	
Collection Fund Note 4. Council Tax Base	<p>Band D equivalent dwellings and the Council Tax base for 2019/20 were updated to ensure that these matched the base set by Council.</p>	Y
Minor disclosure improvements	<p>Various minor disclosure changes were made to improve the financial statements. These included referencing, casting and spelling updates.</p>	Y

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below :

Detail

1	Our testing identified a classification error of £146k relating to income received in advance which had been incorrectly posted to a creditor code which should have been posted to a debtor code. This was not adjusted in the final accounts on the basis of materiality.
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Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£46,632	TBC

Non-audit fees for other services Proposed fee £

Audit Related Services

Grants:

Housing Benefit Subsidy return	12,000*
Pooling of Capital receipts return 2019/20	5,000
Prior year pooling of Capital receipts returns	9,000

*proposed fee, our work has yet to be finalised on the Council's Housing Benefits Subsidy return for 2019/20.

Non-Audit Related Services

Place Analytics	6,000
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Reconciliation of fees to the accounts (note:20)	Disclosure £000	2020 fees £000	Prior year's fees £000	Reported in 2018/19 £000
Audit				
Current year	47	47		39
Under provision prior year	4	-	4	-
Housing Benefit Subsidy	12	12	-	9
Pooling of Capital receipts	-	5	-	3
Additional pooling claims (x2 for previous years)	-	6	-	-
Place Analytics	-	6	6	
Additional fees on grant claims for prior years charged by KPMG				3
Total fees paid to auditors	63	76	10	54

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

DRAFT Independent auditor's report to the members of East Devon District Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of East Devon District Council (the 'Council') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Income and Expenditure Statement for the Year Ended 31 March 2020, the Statement of Movement on the Housing Revenue Account for the Year Ended 31 March 2020, the Collection Fund - Income and Expenditure Account 2019/20 and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Lead Finance, Section 151 Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Council's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Council's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Lead Finance, Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Lead Finance, Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Strategic Lead Finance, Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Council's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

Audit opinion

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Council will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and investment properties

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings, Council Dwellings and investment properties as at 31 March 2020. As disclosed in Note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Council's land and buildings valuer's report and the investment property valuer's report. Our opinion is not modified in respect of this matter.

Other information

The Strategic Lead Finance, Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Statement and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Council, the Strategic Lead Finance, Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Strategic Lead Finance, Section 151 Officer. The Strategic Lead Finance, Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Lead Finance, Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Audit opinion

In preparing the financial statements, the Strategic Lead Finance, Section 151 Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Council's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the East Devon District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Council's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jackson Murray, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Bristol



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