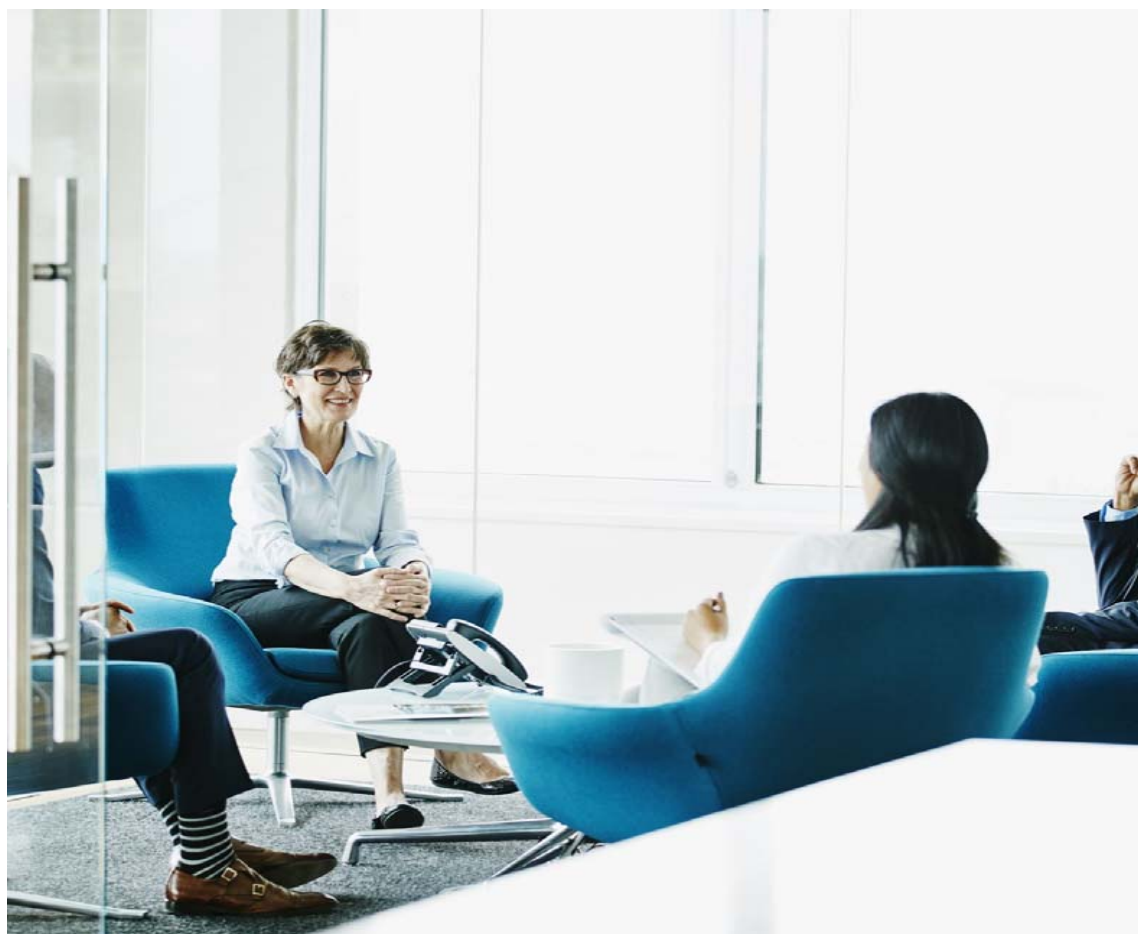


The Audit Findings for East Devon District Council

Year ended 31 March 2021

East Devon District Council

9 March 2023



Contents



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This Audit Findings 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. Its contents have been discussed with management.

Jackson Murray

For Grant Thornton UK LLP

Date : March 2023

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Devon district Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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 give a true and fair view of the financial position of the Council and its 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.

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.

Our audit work was started remotely in November 2021 and continues. [We reported our findings to date to the March 2022 Audit and Governance Committee. Since that time, there have been a number of challenges in closing down audit queries, and the 2020/21 audit has also been impacted by national accounting issues in respect of infrastructure assets. CIPFA consulted nationally and issued amended guidance in January 2023 which has allowed us to begin work on the Council's infrastructure asset balances and transactions once more.](#)

Our findings to date are summarised on pages 5 to 22.

We have identified [3 adjustments](#) to the financial statements that have resulted in a £Nil net adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also 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.

Our work is ongoing and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;

- testing of: land & building revaluations, council dwellings valuations, pension liability, grant income, expenditure, remuneration disclosures, income and expenditure disclosures, capital expenditure and financing, collection fund, and housing revenue account;
- updating management's going concern assumptions to the point of signing the audit opinion;
- concluding procedures, [including an understanding of the impact of any subsequent events given the time period elapsed since the end of the period covered by the financial statements and the date of our audit opinion](#);
- final manager and engagement leader review of audit work and satisfactory response to any points raised;
- receipt of signed management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Our completed VFM work is summarised on page 21, and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit & Governance Committee in July 2022. We were satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We will only be in a position to issue the final Auditors Annual Report upon completion of the financial statements audit for 2020/21, and will therefore be alert to any further evidence available to us until this point.

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 ascribed to us under the Act; and
- to certify the closure of the audit.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant Matters

As noted on page 3, have encountered a number of difficulties in being able to conclude our audit work on 2020/21. Our audit work began in November 2021 and we experienced a number of issues with the timely return of audit requests. Throughout the period of audit, the council has also experienced staff absence that has made responding to audit queries more challenging than it would usually be. Given the large amount of time that has passed, a number of team members who started the audit work are no longer employed at Grant Thornton, which has meant that multiple handovers of work have taken place and there are updated requirements which have lead to additional procedures being scoped into the audit plan. As the audit was not concluded prior to January 2021, the Council's material infrastructure balance meant that we were unable to conclude as we awaited statutory actions to allow the national issues relating to infrastructure to be resolved (more detail on page 10).

We also encountered issues relating to creditors populations, where the council was unable to provide a detailed listing of creditors as at year end. This lead to us having to expand the size of our sample, creating a greater volume of work for both us and officers.

As a result of these factors, additional fees will need to be charged for the additional audit work involved to conclude. We are in the process of reviewing the position and will discuss with the Director of Finance prior to submitting our final fee position to PSAA for approval.

2. Financial Statements

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 auditor 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.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 15 March 2022 as detailed in Appendix E. These outstanding items are listed on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff .

As highlighted on page 3 of our audit plan presented to the Audit & Governance Committee in July 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as, remote accessing financial systems, video calling, physical verification of assets and verifying the completeness and accuracy of information provided remotely produced by the entity.

This resulted in us having to carry out additional audit procedures, to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

Jackson Murray

For Grant Thornton UK LLP

Date : March 2023

2. Financial Statements



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 the disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in July 2021

We detail in the table to the right our determination of materiality East Devon District Council

Council Amount (£) Qualitative factors considered

| | | |
|---|-----------|--|
| Materiality for the financial statements | 1,800,000 | The Council operates in a stable, publicly funded environment. |
| Performance materiality | 1,350,000 | Set at 75% of materiality, limited significant findings in previous periods. |
| Trivial matters | 90,000 | Level set for reporting errors or omissions to TCWG. |
| Materiality for Senior Officer remuneration | 20,000 | Public sensitivity in the pay of senior officers in the public sector. |



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Commentary |
|--|---|
| <p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p> <p>We 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>We:</p> <ul style="list-style-type: none"> • 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. <p>Findings</p> <p>We identified that a number of finance officers had administrator privileges within the finance system, and as such amended our planned audit approach to review the journals posted by these individuals in detail as we would not necessarily expect this level of access. See Appendix A for more details.</p> <p>Our work is complete and we have not identified any other issues which impact on our conclusion.</p> |

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

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.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition

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

Valuation of land and buildings, including Investment Properties and Council Dwellings

The Council revalues its land and buildings on a rolling five-yearly basis at 31 December each year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£88m at 31 March 2021) 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.

The Council revalues its housing stock (£248m at 31 March 2021) at 31 March each year, using the Beacon Methodology as required by the Code.

Investment Properties (£3m at 31 March 2021) are also valued at fair value annually at 31 March.

We therefore identified valuation of land and buildings, including investment properties and Council Dwellings, as a significant risk.

We have:

- 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

At the time of drafting the report, work is ongoing in relation to the council dwelling and land & building assets. We have completed our work on Investment Properties.

[Our review of Investment Properties identified that the council valued this asset as at 31 December 2020 rather than the 31 March 2021. While we have been able to satisfy ourselves that the value would not be materially different, this constitutes non-compliance with eh CIPFA code, as investment properties are required to be revalued as at the balance sheet date. We have raised a recommendation in Appendix A.](#)

No other findings have been identified at the time of writing.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£84m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority'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. The council also made a prepayment to the pension fund in relation to its deficit contributions. Our review of this has identified this has not been treated correctly.

Our work in this area is still ongoing and to date no other issues were identified from our testing.

2. Financial Statements - Other risks

Risks identified in our Audit Plan

Valuations of Infrastructure Assets

The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment.

As the audit progressed we identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register. This was a national accounting issue affecting all Authorities with material infrastructure asset balances.

Commentary

The inherent risks which we identified in relation to infrastructure assets were:

- an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components; and
- a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges.

We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs).

The English SI includes two key elements:

1. The local authority is not required to make any prior period adjustments (PPAs) in respect of infrastructure assets
2. Where a local authority replaces a component of an infrastructure asset the carrying amount to be derecognised can be determined as nil or calculated in accordance with normal accounting practices specified in the CIPFA Code.

This has meant that the only remaining risks relates to the accuracy of in year depreciation and accuracy of any impairment consideration where relevant.

The council is in the process of updating accounts to reflect the updated disclosure requirements as Infrastructure assets are now only required to be disclosed on a net book value basis.

We have completed the following work focusing on the Council's current year's infrastructure assets:

- reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets; and
- evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs.

Our work in this area is still in progress. To date we have identified two issues relating to Infrastructure assets. Firstly, assets with a gross book value of £7.1m did not have a useful economic life assigned and hence no depreciation was charged on the them. Secondly, a number of the Council's Infrastructure assets have useful economic lives that are outside of the ranges provided by CIPFA in their guidance. We are currently evaluating the impact of these issues.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|---|--|--|
| <p>Recognition and Presentation of Grant Income</p> <p>The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income</p> | <p>The Council prepared a working paper setting out their consideration of each grant received and its judgements on its basis for accounting. As part of our work we have considered:</p> <ul style="list-style-type: none"> • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all; • the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income; • the Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the Comprehensive Income and Expenditure Statement (CIES); and • the adequacy of disclosure of judgements in the financial statements. | <p>We reviewed the Council’s assessment of whether it was acting as a principal or agent and concluded that their assessment and judgements were reasonable, however in accounting for grants, the Council had incorrectly included £67m of Covid-19 grants they had designated on an agency basis in the CIES on a gross basis. While the net position on the CIES was correct, the Council’s gross expenditure and gross income were both overstated by this amount.</p> |
| <p>Prior period adjustment between short term investments & cash Equivalents</p> | <p>During the year, the Council identified an error in the classification of some of its fixed term loans as cash and cash equivalents on the balance sheet in the current year and in 2019/2020. This means that cash and cash equivalents were overstated by £2m in 2019/20 and short term investments were understated by the same amount.</p> | <p>The Council has amended for this in the prior period in accordance with IAS 8 and have produced an additional disclosure note and disclosed a prior period adjustments accounting policy.</p> |

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|-------------------------------------|--|--|-------------|
| Land and Building valuations – £88m | <p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged an internal valuer to complete the valuation of properties as at 31 December 2020 on a five yearly cyclical basis. 84% of total assets were revalued during 2020/21.</p> <p>Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2020 and those valued in earlier years, based on the market review provided by the valuer as at 31 March 2021, 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>The total year end valuation of land and buildings was £88m, a net decrease of £3m from 2019/20 (£91m).</p> <p>The Council also has £2.3m of community assets, which are valued at fair value.</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 have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>We are currently awaiting evidence to support the significant assumptions used in valuations. Our work to date has not identified any issues.</p> | In progress |

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|--|--|---|-------------|
| Land and Buildings – Council Housing - £248m | <p>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> <p>The Council has engaged the District Valuer to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis. All assets were revalued during 2020/21.</p> <p>The total year end valuation of land and buildings was £247.8m, a net increase of £12m from 2019/20 (£235.8m).</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 have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>Our testing is currently underway. To date we have not identified any issues in relation to the valuation of council dwellings in comparison to market data.</p> | In progress |

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|-----------------------------------|--|--|--------------|
| Investment properties - £3m | <p>The Council's Investment property was purchased in the prior year and revalued at 31 December 2020 and rolled forward to 31 March 2021.</p> <p>The Council has engaged an internal valuer to complete the valuation of its investment property.</p> <p>The total year end valuation of the investment property was £2.965m, a net decrease of £0.035m from 2019/20 (£3m).</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 reviewed the valuations 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 have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>To date we have identified one issue with the valuation of investment properties. We identified that the council has revalued its property as at 31 December 2020. In order to comply with the requirements of the CIPFA code, the property should be revalued annually at the balance sheet date (i.e. 31 March). We have raised a recommendation in Appendix A that this is actioned moving forwards. No other issues have been identified and our work on this estimate is complete.</p> | Light Purple |

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|------------|---------------|-----------|------------|---------------|----|---------------|---|-----------------------|------|--------------|---|---------------|------|--------------|---|--|-------------|---------------------------|---|--|-------------|--------------------------|---|-------------|
| Net pension liability – £84m | <p>The Council's net pension liability at 31 March 2021 is £84m (PY £63.4m). The Council uses Barnett Waddingham 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 £40m net actuarial loss during 2020/21.</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> <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%</td> <td>1.95% - 2.05%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.8%</td> <td>2.85% - 2.8%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.8%</td> <td>3.85% - 3.8%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.4 / 23.0</td> <td>21.8 – 24.7 / 20.5 – 23.1</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.6 / 24.1</td> <td>25.2 -26.7 / 23.2 – 24.9</td> <td>●</td> </tr> </tbody> </table> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2% | 1.95% - 2.05% | ● | Pension increase rate | 2.8% | 2.85% - 2.8% | ● | Salary growth | 3.8% | 3.85% - 3.8% | ● | Life expectancy – Males currently aged 45 / 65 | 24.4 / 23.0 | 21.8 – 24.7 / 20.5 – 23.1 | ● | Life expectancy – Females currently aged 45 / 65 | 25.6 / 24.1 | 25.2 -26.7 / 23.2 – 24.9 | ● | In progress |
| Assumption | Actuary Value | PwC range | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 2% | 1.95% - 2.05% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension increase rate | 2.8% | 2.85% - 2.8% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary growth | 3.8% | 3.85% - 3.8% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Males currently aged 45 / 65 | 24.4 / 23.0 | 21.8 – 24.7 / 20.5 – 23.1 | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Females currently aged 45 / 65 | 25.6 / 24.1 | 25.2 -26.7 / 23.2 – 24.9 | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <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.</p> <p>To date we have identified one error with the council's treatment of its prepayment of pension contributions and a number of classification errors which have been amended. More detail is included in Appendix C.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|--|--|---|-------------|
| Minimum Revenue Provision (MRP) - £0.156m | <p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £156k, a net increase of £101k from 2019/20.</p> | <p>We:</p> <ul style="list-style-type: none"> considered whether the MRP has been calculated in line with the statutory guidance; considered whether the Council's policy on MRP complies with statutory guidance; and considered the reasonableness of the movement in MRP charge. <p>Findings</p> <p>We identified that management's MRP policy is in line with statutory guidance, but that the method of calculation used was not the same as that stated in their policy. Management were using the CFR method to calculate MRP and this is only allowable for capital expenditure incurred before 2008.</p> <p>We also identified that there was no MRP charge calculated on the council's capital loans, which in our view require an MRP charge in accordance with the statutory provisions.</p> <p>Our work in this area is still underway and we are determining the impact of amendments to the MRP calculation.</p> | In progress |

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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 | Commentary |
|---|--|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit & Governance 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, including specific representations in respect of the Council's Prior Period Adjustment, which is included on the Committee's agenda. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to entities where the Council has cash, investment and borrowing balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. We have received responses from both. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. |

2. Financial Statements - other communication requirements



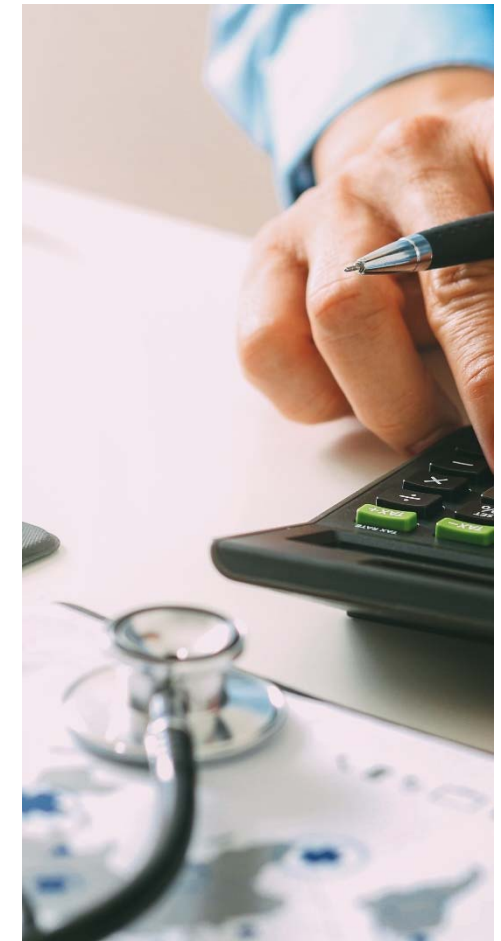
Our responsibility

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).

| Issue | Commentary |
|---------------|--|
| Going concern | <p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates; the Council’s financial reporting framework; the Council’s system of internal control for identifying events or conditions relevant to going concern; and management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified; and management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. <p>In order to conclude our work we will consider management’s assumptions to the date of signing our audit report.</p> |

2. Financial Statements - 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 inconsistent 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. We plan to issue an unmodified opinion in this respect – refer to appendix E</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 comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • if we have applied any of our statutory powers or duties; and/or • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</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>We will complete our work in this area once the accounts audit is finalised.</p> |
| Certification of the closure of the audit | <p>We intend to issue the certification of the closure of the 2020/21 audit of East Devon District Council at the same time as the audit opinion.</p> |



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- a new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- more extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit & Governance Committee in July 2022.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

| Risk of significant weakness | Procedures undertaken | Conclusion |
|---|--|--|
| <p>Governance – response to findings from Health and Safety survey</p> <p>In March 2021 the Chief Executive presented the findings of the staff survey to the Scrutiny Committee, which included the impact on staff of a change of political culture and the working environment. There is a risk that appropriate standards in behaviour have an impact on the wider corporate governance framework.</p> | <p>We have:</p> <ul style="list-style-type: none"> considered the response to the survey from officers and members; reviewed the Code of Conduct; and considered any impact the findings have had on the wider control environment. | <p>We have reviewed the findings of two survey's and the Council's response including the actions taken to improve Member and Officer relations. Against a background of good working relationships, the surveys highlighted staff concerns around bullying and harassing behaviour from Members.</p> <p>From our review of the actions subsequently taken by the Council and discussions with the Chief Executive and Local Government Association (LGA), there is evidence that the issue has been taken seriously, actions have been implemented, and that the Council is making positive progress to remedy the situation.</p> <p>We concluded that while member behaviour did fall short of the standards required in the Code of Conduct, and relationships with officers suffered as a result, that the issue would had not resulted in a significant weakness. The Council recognised the issue, put an action plan in place and made progress in improving the situation. As a result we included an improvement recommendation in our Auditor's Annual Report, recommending that it is vital that this progress continues to ensure that effective governance can be maintained.</p> |

4. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

4. Independence and ethics

Audit and 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 following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|----------|--|---|
| Audit related | | | |
| Certification of Housing capital receipts grant 2020/21 | £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 £5,000 in comparison to the total audit fee proposed at planning of £60,632 and in particular relative to Grant Thornton UK LLP's 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. |
| Certification of Housing capital receipts grant 2021/22 | £7,000 | Self review (because GT provides audit services) | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Certification of Housing Benefit Claim 2020-21 | 15,200 | 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 £12,400 in comparison to the total audit fee proposed at planning of £60,632 and in particular relative to Grant Thornton UK LLP's 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. |
| Certification of Housing Benefit Claim 2021-22 | 24,165* | Self review (because GT provides audit services) | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Non-Audit | | | |
| Place Analytics (2020-21 and 2021-22) | 10,000** | 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 LLP's 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, subject to no errors or additional work. Our final fee for the Council's Housing Benefits Subsidy return for 2021/22 is being evaluated.

**The draft fee reported in the audit plan was £6,000 per year. Since then the final fee has been confirmed at £5,000 per year.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 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 2021/22 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 |
|------------|---|---|
| Low | The Council did not publish a notification of why their draft accounts were not available by the 1 August 2021 (the national deadline for production of accounts). | We recommend that in the future, where the council does not meet statutory deadlines, that notices are reported on the council's website setting out the reasons for not meeting the deadlines. Management response Agreed. |
| Medium | The Council has various finance officers with admin rights. There is a risk that officers with access to finance functions and admin settings may be able to override controls. | We recommend that management undertakes a review of user access rights to ensure admin access is only provided to those who require it. Management response A review will be conducted for level of access and changed if necessary. |
| Medium | The council has calculated its minimum revenue provision using a method that is not allowable for expenditure incurred after 2008. | While the incorrect calculation method did not result in significantly different MRP charge, we recommend that the council ensures its calculation and policy is compliant with the prudential code. Management response Agreed |
| Medium | The Council has revalued its investment property as at 31 December 2020. The CIPFA code requires the revaluation of investment properties as at the balance sheet date. There is a risk that the asset valuation could be inappropriate if it continues to be revalued prior to the year end. | We have undertaken an exercise to confirm that there is no indication of a material movement in the investment property valuation between the 31 December 2020 and year end, however, we recommend that moving forward, management ensures they revalue the asset as at 31 March. Management response Agreed, revaluation will be undertaken as at 31 March. |

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|------------|--|--|
| Medium | The Council does not have a process in place for the review of all journal postings. There is a risk that inappropriate or incorrect journals could be posted as a result of a lack of review. | <p>We recommend that management considers implementing a review process to identify any incorrect journal postings.</p> <p>Management response</p> <p>Review of process will be undertaken and changes made where management feel necessary. Consideration of issue will also be considered in implementation of new financial system.</p> |
| Medium | Review of the Council's disposals identified one asset that should have been disposed in the 2019/20 financial year. | <p>While the value of the asset disposed of is not material and a prior period adjustment is not required, we recommend management considers all sales in process at year end to determine whether there are any disposed assets that are accidentally excluded from records to ensure the completeness of disposal disclosures in the financial statements.</p> <p>Management response</p> <p>Agreed</p> |
| Medium | Our testing of the completeness of expenditure identified some issues with the Council's Housing Revenue Account accruals. We identified that a number of post year end payments should have been accrued into 2020/21 but were not. We identified a factual error of £141k. | <p>We recommend that management undertakes a detailed review of HRA expenditure around the year end to ensure it allocates costs to the appropriate period.</p> <p>Management response</p> <p>Agreed</p> |
| Low | <p>Our review of the Council's depreciation charge identified a number of cases where vehicles, plant & equipment assets had a useful life that was outside of the policy stated in the accounts.</p> <p>Management confirmed that the policy needed updating and that the useful lives of individual assets were correct.</p> | <p>We recommend that management reviews and updates its policy to ensure it appropriately reflects the asset base. We also recommend that management reviews its individual asset lives to ensure they comply with the stated policies and are appropriate for the individual assets.</p> <p>Management response</p> <p>Policy and individual asset lives will be reviewed.</p> |
| Low | <p>We identified a number of Infrastructure assets that did not have a useful economic life allocated. As a result no depreciation was being charged for those assets and the in year depreciation charge is understated.</p> <p>We have also identified that a number of the Council's Infrastructure assets have been assigned useful lives which differ to the ranges suggested by CIPFA.</p> | <p>We recommend that management review Infrastructure assets and identify useful lives that are in line with those recommended by CIPFA in their January 2023 update for all infrastructure assets to ensure annual depreciation charges are appropriate.</p> <p>Management response</p> <p>Agreed</p> |

B. Follow up of prior year recommendations

We identified the following issues in the audit of East Devon Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|--|---|
| ✓ | <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> | Previous approach taken due to pandemic. Going forward the usual process is now being followed as per the CIPFA Code. |
| ✓ | <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> | Review of historical balances has been performed with actions being agreed for write off. |
| ✓ | <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> | The Council continues to follow the Code in its production of the AGS and narrative report, taking into account any best practice where relevant. |

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|--|---|--|--|
| Our testing of the Council's cash equivalents we identified that the balances did not meet the council's own definition of a cash equivalent and should be disclosed as short term investments. The Balance Sheet, Financial Instruments Note and Cash Flow all required updating for the reclassification. | £nil | Dr Short Term Investments £23m Cr Cash Equivalents £23m | £nil |
| The Council had included £67m of Covid-19 grants they had designated on an agency basis in the CIES on a gross basis. Whilst the net position was correct, the Council's expenditure and income were both overstated in the CIES. | Dr £67m income Cr £67m expenditure | N/A | £nil |
| The Council made a prepayment to the pension fund in relation to its deficit contributions. As a result the pension reserve and liability should not match. Our review of this has identified this has not been treated correctly. Our work is currently underway in this area, with the council having agreed to adjust the financial statements. | £TBC | £TBC | £TBC |
| Overall impact | £Nil | £Nil | £Nil |

C. 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 omission | Detail | Adjusted? |
|--|--|-----------|
| As a result of the investments re-classification noted on page 27 the council has also adjusted it's prior period balances. The following amounts have been moved from cash equivalents to short term investments: £2m as at 1 April 2019 £4m as at 31 March 2020 | In order to comply with the requirements of IAS 8 the council has included a prior period adjustment policy, a prior period adjustment disclosure note and a third balance sheet to reflect the adjustment as at 1 April 2019. | ✓ |
| Within Note 34.5 "Pension Reserve", reversal of items relating to retirement benefits in the CIES balance were disclosed as £6,373k however, in IAS19 report it was £6,499k and employer's pension contributions and direct payments to pensions balance £4,043k however, in IAS19 report it was £4,169k. These differences of £126k net off, with no impact on the balance sheet. | We requested that the amounts were updated. | ✓ |
| Within Note 19.2 "Transactions Relating to Post Employment Benefits", current service cost balance was £4,999k however, in IAS19 report it was £4,762k and past service cost was £5k however, in IAS19 report it was £242k. These differences of £237k net off, with no impact on the balance sheet. | We requested that the amounts were updated. | ✓ |
| General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts. | We brought these to the attention of management, who adjusted most of these errors. | ✓ |
| As part of our review of the Expenditure and Funding Analysis, we identified an error in the prior period brought forward values. The Other income and expenditure amount was stated as £8,801k but should be £8,644k. | We brought this to the attention of management, who confirmed that this was an error and confirmed it would be corrected going forward. This is appropriate treatment as the prior period error is not material. | ✓ |
| We identified that the senior officer disclosure note did not include expense and allowance payments to senior individuals and that an exit package paid to a senior officer was not disclosed. | The CIPFA Code Guidance notes state that expenses and allowances should be included in the disclosure note and non-material amount of £10k had been excluded. The Council also made one exit payment of £106k which was not disclosed in the original note, however it was correctly disclosed in the separate exit packages note. | TBC |

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|--|--|--|---------------------------------------|--------------------------|
| Housing Revenue Account Expenditure not accrued into 2020-21 | Dr HRA Expenditure £141 | Cr Accruals £141 | Dr Expenditure £141 | Not material |
| MRP – the council has not been providing MRP on capital loans to third parties. The cumulative impact on the General Fund is being reviewed. | TBC | TBC | TBC | TBC |
| The council had not been depreciating all infrastructure assets as no economic life was assigned to them. | Dr Depreciation £244 | Cr Infrastructure £244 | Dr Expenditure £244 | Not material |
| Overall impact | £385 | Cr Accruals £141 Cr Infrastructure £244 | £385 | |

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements that impacted the primary statements in 2019/20.

D. 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 Scale Fee | 39,132 | 39,132 |
| Additional Fees previously raised* | 21,500 | 21,500 |
| Additional Fees identified to date: | | |
| Minimum revenue provision | | 2,000 |
| Prior period Adjustment discussions | | 1,000 |
| Delay in receipt of responses to various audit queries | | 8,000 |
| Infrastructure | | 5,000 |
| Additional Journals work | | 1,000 |
| Pension reserve restatements | | 2,500 |
| Debtor & Creditor population issues | | 1,000 |
| Total proposed audit fees (excluding VAT) | £60,632 | **£81,132 |

*Additional fees previously raised are those set out in the Audit Plan presented to Audit & Governance Committee in July 2021.

**Total fees to be agreed on completion of all audit procedures and to be approved by PSAA. At the time of reporting we anticipate the above additional fees. We will provide an update at the conclusion of our work.

D. Fees

We confirm below the provision of non-audit services.

| Non-audit fees for other services 2020-21 | Proposed fee | Final fee |
|--|---------------------|------------------|
| Audit Related Services | | |
| Housing Benefit 2020-21 | £15,200 | £15,200 |
| Pooling of Housing Capital Receipts | £5,000 | £5,000 |
| Non-Audit Services | | |
| Place Analytics | £5,000 | £5,000 |
| Total non-audit fees (excluding VAT) | £25,200 | £25,200 |

Total agreed Audit and Non-audit fees of £83,000 that relate to 2020-21 reconcile to the financial statements bar a rounding difference. The remaining fees are being proposed at the conclusion of the audit.

The below table sets out planned fees for 2021-22 work which has started during the period the 2020-21 audit has remained open.

| Non-audit fees for other services 2021-22 | Proposed fee | Final fee |
|--|---------------------|------------------|
| Audit Related Services | | |
| Housing Benefit 2021-22 | £24,165 | TBC |
| Pooling of Housing Capital Receipts | £5,000 | £5,000 |
| Non-Audit Services | | |
| Place Analytics | £5,000 | £5,000 |
| Total non-audit fees (excluding VAT) | £34,165 | TBC |

E. Audit opinion

Our audit opinion is included below.

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 on financial statements

We have audited the financial statements of East Devon District Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, the Collection Fund Statement and 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance 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 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 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 the 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 in April 2020 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 '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 matters 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, the other information published together with the financial statements in the Statement of Accounts 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 Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 16, the Authority 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 authority, that officer is the Chief Finance Officer. The Chief Finance 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority'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 Authority will no longer be provided.

E. Audit opinion

The Audit & Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority'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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Government Act 1972, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012, and the Local Government Act 2003).

- We enquired of senior officers and the Audit & Governance Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit & Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, management estimates and judgements and transactions outside the normal course of business.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
 - journal entry testing, with a focus on large and unusual journals
 - challenging assumptions and judgements made by management in its significant accounting estimates including those in respect of the valuation of land and buildings, the valuation of investment property, defined benefit pensions liability valuations and the non-domestic rates provision; and
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

E. Audit opinion

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, investment property, defined benefit pensions liability valuations and the non-domestic rates provision.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority 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 Authority'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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

E. Audit opinion

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for East Devon District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, 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 Authority'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 Authority and the Authority'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

Date:

