East Devon District Council Indicative Audit Plan

Year ending 31 March 2024

10 July 2024

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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.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

Within our interim 2022/23 Auditors Annual Report discussed at Audit & Governance Committee in March 2024 we reported a significant weakness in governance arrangements which was also reported in the prior year. This related to historic cultural issues and the operation of the Overview and Scrutiny and Audit and Governance Committee. We will have regard to these issues when undertaking our 2023/24 VFM audit and continue to engage with management to understand your responses to these and other challenges.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared in a timely manner, to a high standard and are supported by strong working papers.

As reported in our 2020/21 Audit Findings Report dated November 2023, delays were encountered and additional work required to conclude the audit, resulting in our opinion not being issued until 2 November 2023. The Council recognises that there have been historic capacity issues within the finance team which combined with national technical issues and subsequent audit team changes that compounded the delay. Whilst not alone in finding itself with prior year unaudited accounts, the focus going forward for both councils and auditors must be timely accounts production and audit completion.

Key matters - continued

We have, subject to final guidance, agreed with the Council to backstop the 2021/22 and 2022/23 opinion audit. This should enable an earlier start on the 2023/24 post-statements audit. The Council had initially committed to producing draft 2023/24 financial statements by the end of May 2024 deadline but is now proposing to produce them ahead of July's Audit & Governance Committee.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Director of Finance.
- To ensure close work with audited bodies and an efficient audit process, our preference as a firm is either for our UK based staff to work on site with you and your staff or to develop a hybrid approach of on-site and remote working. Please confirm in writing if this is acceptable to you, and that your staff will make themselves available to our audit team.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit & Governance Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit & Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit & Governance Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Key matters - continued

Our Responses (continued)

- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue– refer to page 8.

Prior years disclaimer

The draft financial statements for the year ended 31 March 2022 were not published until January 2024 and have therefore not been audited. The financial statements for the year ended 31 March 2023 were not published until 21 May 2024. The financial statements for the years ended 31 March 2022 and 31 March 2023 are therefore likely to be subject to the Local Audit Backstop, assuming it is implemented as currently proposed.

There is a consultation involving the Financial Reporting Council (FRC) and Department for Levelling Up, Housing and Communities (DLUCH) in respect of applying a backstop to prior year opinion audits not likely to be concluded by 30 September 2024. The consultation closed on 7 March 2024, with the outcomes due shortly. We have requested further guidance from the FRC and National Audit Office (NAO) regarding some of the technical aspects of the consultation, notably potential modified opinions and work around opening balances. We will provide an update the Audit and Governance Committee when we understand what additional work will be required.

2023/24 Opinion audit

We understand that the Council continues to engage different agencies to secure more finance expertise to try and manage the external and internal financial reporting processes. This plan is therefore indicative and based on the planning work we have been able to complete to date. Should further risks emerge as we conclude planning these will be brought to the attention of the Audit & Governance Committee and factored into our post-statements audit.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Devon District Council ('the Council') for those charged with governance. Due to challenges in undertaking our planning as set out on page 3, this plan is indicative and subject to us concluding our planning work. Should any further risks emerge, we will communicate these to the Audit & Governance Committee in due course and factor them into our work.

Respective responsibilities

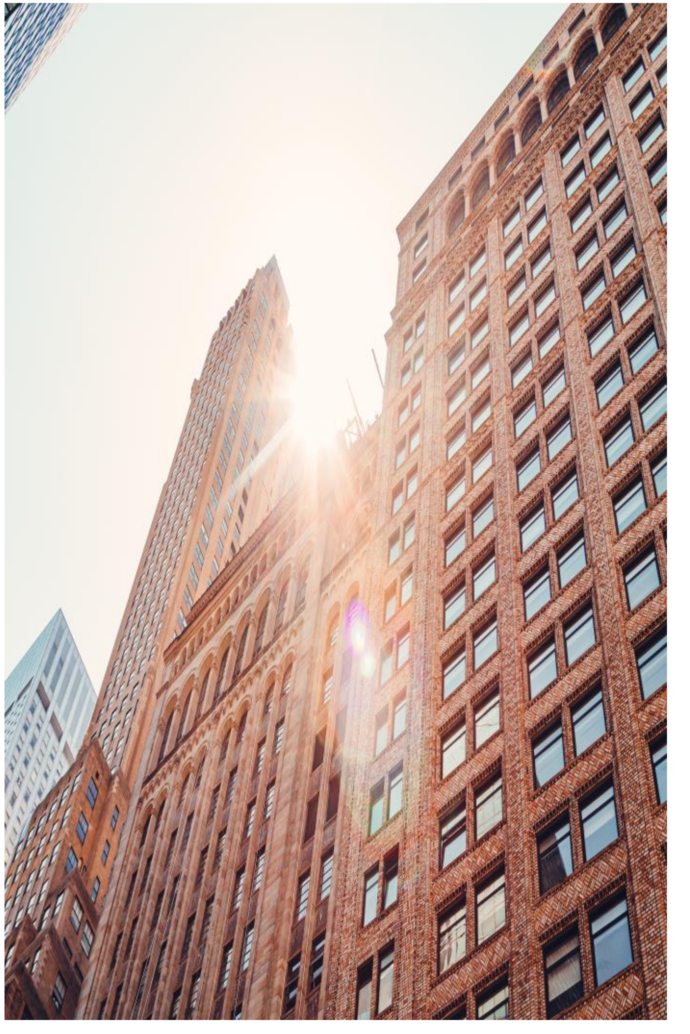
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of East Devon District Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings, including investment properties and council dwellings
- Valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.5m (2021/22 £1.8m) for the Council, which equates to 1.6% of your 2021/22 (latest financial statements available) gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £75k (2021/22 £90k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risk of significant weakness:

- Governance – increase in number of 'limited assurance' internal audit reports which may indicate more pervasive internal control or compliance issues.
- Governance – reflecting previous significant weaknesses in arrangements relating to cultural issues and the operation of the Overview and Scrutiny Committee and Audit and Governance Committee.
- Governance – the ability of the Council to produce complete, accurate and timely financial statements supported by good quality working papers in accordance with national deadlines.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning visit took place in March and April 2024 and our final visit will take place in October 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £157,209 (2021/22: £101,132) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	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. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including East Devon District Council mean that all forms of fraud are seen as unacceptable.	No specific work is planned as the presumed risk has been rebutted.
The expenditure cycle includes fraudulent transactions (rebutted)	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). We have rebutted this presumed risk for East Devon District Council because: • Expenditure is well controlled and the Council has a strong control environment; and • The Council has clear and transparent reporting of its financial plans and financial position to the Council. We therefore do not consider this to be a significant risk for East Devon District Council.	No specific work is planned as the presumed risk has been rebutted.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. 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 assessed risks of material misstatement. We note that there is no automatic control that requires all journals to be authorised and that manual controls do not cover all journals. This increases the risk of misstatement.	We will: • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criteria for selecting high risk unusual journals; • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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 (£85.5m at 31 March 2001) 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 it's housing stock (£247.8m at 31 March 2021) at 31 March 2021 each year, using the Beacon Methodology as required by the CIPFA 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 will: • Evaluate management's processes and controls for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out; • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • Evaluate the valuer's report to identify assets that have large and unusual changes and /or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable; • Test a selection of other assets revaluations made during the year to see if they had been input correctly into the Council's asset register, revaluation reserve, and Statement of Comprehensive Income; • Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; • For all assets not formally revalued or revalued on a desktop/indexation basis only, evaluate the judgement made by management or others in determination of current value of these assets.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£84m at 31 March 2021) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Test 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; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from the auditor of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.5m, which equates to 1.6% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £17k.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit & Governance Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75k (2020/21 £90k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	1.5m	1.6% of the gross expenditure for the year ended 31/03/2022.
Materiality for specific transactions, balances or disclosures - senior officer remuneration	17k	In LG, the senior manager remuneration note typically includes around 10 individuals and discloses their pay and other benefits, including employer pension contributions. It does not include the overall value of the pension entitlement (unlike the CETVs disclosed in the NHS). For each line of the table, the total remuneration is typically in the range of £80-200k. This note is an element of the accounts which is of genuine concern to the user of the accounts, with the salaries of senior officers sometimes the subject of adverse publicity. The area requiring judgement is what level of error within the disclosures made would result in us qualifying our opinion – and therefore what level of materiality should drive our testing.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
E-financials	Financial reporting and payment system	Detailed ITGC assessment (design effectiveness only)
[iTrent]	Payroll	Detailed ITGC assessment (design effectiveness only)

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table on page 19, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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.

Risks of significant VFM weaknesses

Based on our VFM planning we have identified the following risks of significant weakness in 2023/24.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

- Governance – increase in number of 'limited assurance' internal audit reports which may indicate more pervasive internal control or compliance issues.
- Governance – reflecting previous significant weaknesses in arrangements relating to cultural issues and the operation of the Overview and Scrutiny Committee and Audit and Governance Committee.
- Governance – the ability of the Council to produce complete, accurate and timely financial statements supported by good quality working papers in accordance with national deadlines.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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.

Audit logistics and team

Planning and risk assessment

Audit & Governance committee
25 July 2024
Audit Plan

Audit & Governance committee
19 September 2024
Interim Auditor's Annual Report

Year end opinion audit
October to December 2024

Audit & Governance committee
December 2024
Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Audit & Governance committee
December 2024
Auditor's Annual Report

Peter Barber, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Gail Turner-Radcliffe, Audit Manager

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Robson Zvenhamu, Audit Incharge

Key audit contact responsible for the day to day management and delivery of the audit work

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you via inflo.
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on page 4)
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for East Devon District Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £149,679.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
East Devon District Council	£149,679
ISA 315*	£7,530
Total anticipated audit fees (excluding VAT)	£157,209**

*Estimated

** IFRS16 adoption – IFRS 16 will need to be implemented by local authorities from 1 April 2024. The impact of this change will require disclosure in the 2023/24 statements and may necessitate further audit procedures. The impact on our fee of any additional audit work undertaken will be considered at the conclusion of the audit.

** Potential impact of delayed 2021/22 and 2022/23 audit opinion. If the delayed accounts are disclaimed due to the imposition of a backstop date, we will need to undertake further audit work in respect of opening balances. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we will discuss arrangements with management.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits grant	2021-22 £30k* 2022-23 £30k* 2023-24 £30k*	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 in comparison to the total fee for the audit of £157,209 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. We do not prepare the returns which we are auditing and do not expect material misstatements to the financial statements to arise from this work. The factual accuracy of our report, including any representations from management, are agreed with informed management. These factors all mitigate the perceived threats to an acceptable level.
Pooling of housing capital receipts return	2021-22 £6k 2022-23 £10k 2023-24 £10k	Self-Interest (because this is a recurring fee)	
Non-audit related	none		

* The Housing Benefit fee quoted is for initial testing. Any work required on errors identified will be charged at a day rate of £935. Based on previous experience, we anticipate this to be in the region of £4,500 if the errors remain at a similar level to previous periods.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit & Governance Committee (at next available Audit & Governance Committee meeting or in writing to Audit & Governance Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Audit & Governance Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - Consultations on measures to address local audit delays (frc.org.uk)
- DLUHC landing page - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- NAO landing page - Code of Audit Practice Consultation - National Audit Office (NAO)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – 'true and fair')
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit & Governance Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government's response to the consultation. We will discuss next steps including any implications for your audit once we have further information.

Grant Thornton

grantthornton.co.uk