

Audit Completion Report Mid Devon District Council

For the year ended 31 March 2024



Date: 14 January 2025

Those Charged with Governance
Mid Devon District Council
Phoenix House
Phoenix Lane
Tiverton
EX16 6PP

Dear Sirs and Madams

Mid Devon District Council – Audit Completion Report

We are pleased to attach our Audit Completion Report. This report summarises our audit conclusions, highlights the key findings arising from our work and details a number of points that we would like to discuss further with you.

We have initially discussed the contents of our report with management and have incorporated their comments where relevant.

This report is intended to be solely for the information and use of management and those charged with governance of the Council and should not be shared with anyone beyond the Council without our prior approval.

We would like to take this opportunity to thank the finance team for the co-operation and assistance afforded to us during the course of the audit.

Kind regards

Yours faithfully

A handwritten signature in black ink that reads "Bishop Fleming LLP". The signature is written in a cursive, flowing style.

BISHOP FLEMING LLP

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1. Executive summary

Status of audit

The scope of our work is set in accordance with the National Audit Office's Code of Audit Practice (the Code) and the International Standards on Auditing (ISAs) (UK). Our work is planned to provide a focused and robust audit. We are required to provide an independent opinion as to whether the financial statements:

- give a true and fair view of the financial position of the Council at the year end and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Our audit is largely complete, however, is subject to the resolution of certain outstanding queries outlined in section 2. Subject to the satisfactory finalisation of these points, we anticipate issuing an unmodified audit report.

Amendment to audit deadlines

On 9 September 2024, the Secretary of State for MHCLG laid regulations to introduce statutory deadlines for publication of audited accounts amending the Accounts and Audit Regulations 2015. These came into force on 30 September with the intention of addressing the backlog in local government accounts.

For the 2023/24 financial year, under these new regulations, an authority must publish its audited statements (namely its audited statement of accounts, annual governance statement and narrative statement) on or before 28 February 2025.

Key audit issues

Within our Audit Plan, which was presented to the Audit and Governance Committee in March 2024, we outlined a number of risks that we considered to be of particular significance to the audit. Our plan also detailed our planned approach for addressing each of these risks.

The specific risks highlighted were as follows:

- Management override of controls;
- Fraud in revenue recognition;
- Fraud in expenditure recognition;
- Valuation of land and buildings and council dwellings; and
- Valuation of the pension fund net liability.

Our audit work is largely complete on each of the above areas and is further detailed in section 2 of this report.

Audit Adjustments

During the course of our work, adjustments were identified and, on agreement of management, were adjusted in the financial statements.

Further adjustments were proposed but not made, as those charged with governance do not consider them to be material to the financial statements. We accept this explanation.

Full details of the adjustments identified are included in section 6 to this report.

Management Letter Points and Internal Control Matters

One new control point and one unresolved finding from the prior year are detailed in section 8 to this report.

Value for Money

We are also required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024. The National Audit Office's Code of Audit Practice requires us to report on the Council's arrangements under three specified reporting criteria:

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

The predecessor auditor's value for money work as reported in their 2022/23 Auditor's Annual Report to the Council in March 2024 highlighted 'significant weaknesses' in the Council's arrangements for governance and improving economy, efficiency and effectiveness (3Es). These significant weaknesses related to 3 Rivers Developments Limited. The Council has been taking action to address the issues identified with the implementation of the plan to close down 3 Rivers Developments Limited during the financial year, which had been substantially completed by the year end. However, given the timing of the 2022/23 report, we have considered whether the significant weaknesses still applied to the 2023/24 financial year. We have concluded that the significant weakness in the Council's arrangements for the 3Es in respect of 3 Rivers Developments Limited still applied during the 2023/24 financial year.

Our audit procedures identified that the Council has not been setting the rents for its housing tenants in line with the formula rent requirements set out by the Government. This is an historic issue, going back a number of years but the Council's arrangements for setting the rent each year had not identified this issue. We have concluded that this is a significant weakness in the Council's governance arrangements.

The results of the Value for Money work are reported separately in our Auditor's Annual Report.

Independence

The FRC Ethical Standard and ISA 260 requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The aim of these communications is to ensure full and fair disclosure by us to those charged with governance on matters in which you have an interest.

We are not aware of any relationships that, in our professional judgment, may reasonably be thought to bear on our independence or the objectivity of the audit engagement team.

We confirm that in our professional judgment, Bishop Fleming is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff has not been compromised.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. Should you have any specific matters that you wish to discuss, please contact us.

2. Introduction

Responsibilities of the audited body

The audited body is responsible for the preparation of the financial statements and for making available to us all the information and explanations we consider necessary. Therefore, it is essential that it confirms that our understanding of all matters referred to in this report are appropriate, having regard to its knowledge of the particular circumstances.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of Mid Devon District Council.

In consequence, our work did not encompass a detailed review of all aspects of the system and controls and cannot be relied upon necessarily to disclose possible frauds or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might reveal.

Materiality

In carrying out our audit work we have considered whether the financial statements are free from 'material misstatement'. Materiality is an expression of the relative significance of a particular matter in context of the financial statements as a whole.

In general, misstatements, including omissions, are considered to be material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The assessment of whether a misstatement is material in the context of the financial statements is a matter of professional judgement and will have regard to both the size and the nature of the misstatement, or a combination of both. It is also affected by our perception of the financial information needs of users of the financial statements.

	Basis of materiality	Amount
Mid Devon District Council Group	2% of gross income	£1,005k
Mid Devon District Council	2% of gross income	£955k

The level of materiality in our Audit Plan was based on the prior year unaudited financial statements. Therefore, we have updated materiality to reflect the 2023/24 draft statement of accounts.

Anticipated audit report

Subject to the satisfactory resolution of the outstanding items, and to receiving all outstanding information set out below, we anticipate issuing an unmodified audit report on the financial statements of Mid Devon District Council for the year ended 31 March 2024.

Representation Letter

The representation letter is attached at Appendix 1.

Update on our planned approach

Our audit work was carried out in accordance with our Audit Plan in response to the perceived audit risks. No matters were identified which required us to change our approach and no additional risks were identified.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Finalising our reporting of our consideration of the questions raised by the registered elector
- Finalising our review and testing of the supporting working papers for the provision for social rents overcharged
- Final manager and partner review of audit working papers
- Final completion procedures including consideration of post balance sheet events prior to signing







Confidentiality

This document is strictly confidential and although it has been made available to those charged with governance to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the Local Audit and Accountability Act 2014 (the Act) and from the Code of Audit Practice. The contents of this report should not be disclosed to third parties without our prior written consent.

3. Audit and accounts process

The preparation of the financial statements is a vital process for the management of the Council and one which should be performed on a timely basis. We met with senior officers as part of our planning work to discuss how we would work together to make the audit process effective.

We discussed key accounting issues early, so they could be considered before the audit commenced.

Readiness for audit	
Quality of financial statements	
Accuracy of financial records	
Quality of working papers - General	
Quality of working papers – Property, plant and equipment	
Availability of Staff	

Key (Impact on audit approach)

None or limited impact 

Some impact 

Significant impact 

We invested significant time into the audit running as smoothly as possible. In addition to carrying out a review of the predecessor auditor’s working papers, we also met with Grant Thornton to discuss key issues, to ensure that we had a clear understanding of the prior year audit. At the start of the audit, we held an audit transition workshop and planning meetings with the finance team. During the final audit, we had daily calls with the finance team. In addition to this, the team had an on-site presence during the final audit visit.

As a result of the investment made by both parties, the audit has generally proceeded very smoothly, although some areas have taken longer to audit than we had expected.

We are keen to continually improve our service and the effectiveness of the process and, therefore, will hold a debrief discussion with management to identify areas where this might be possible.

Readiness for audit

We were provided with a copy of the draft financial statements in line with the timetable agreed before the start of the audit and as outlined in our audit plan.

Information requested during the onsite fieldwork was generally provided promptly to our staff. This made the core audit work progress relatively smoothly, although there were delays in some areas. Most notable of these were in respect of evidence in respect of our work on property, plant and equipment. This was both from the Council’s external valuer, which we recognise is not something that the Council can fully control, but also in respect of the Council’s own working papers for this area.

Quality of financial statements

The statement of accounts produced were of a good standard with significant variances and changes clearly explained to users of the financial statements. We have not identified any significant omissions from the draft financial statements.

The finalisation of the financial statements has not yet occurred to the ongoing items as set out in section 2.

Accuracy of financial records

The majority of the underlying financial records were accurate, agreed to the information provided in the audit file and were easy to understand.

Quality of working papers

The quality of the working papers and supporting evidence provided by the finance team was generally good.

However, there were some areas where audit evidence provided was not appropriate, leading to additional follow up queries being required. This was primarily in relation to the supporting evidence in respect of property, plant and equipment where the individual who prepared the figures in the accounts had left the Council. We will have a wash-up meeting with the finance team to discuss these issues after the conclusion of the audit.

Availability of Staff

Key members of the finance team made themselves available to us throughout the audit where possible. We were kept informed of any instances when staff were not available.

As noted above, there were delays in the provision of information by the external valuer which is not entirely within the Council's control.

4. Audit risks

Management override of controls

Significant Risk

We are required by auditing standards (ISA 240) to consider fraud and management override of controls to be a significant risk for all audits as no matter how strong a control environment, there is the potential for controls to be overridden or bypassed.

Work done and conclusion

To address this risk, we have:

- reviewed the reasonableness of accounting estimates and critical judgements made by management;
- tested material journals processed at the year-end; and
- tested other journals with key risk attributes.

In testing journals, we used data analytics tools to interrogate the whole population of journals posted in the year and focus on those with key risk factors.

We have not identified any material errors from our work carried out. However, we have identified that the Council's retrospective control, where journals over £25,000 are reviewed on a monthly basis, has not been operating during the year. See section 7.

Fraud in revenue recognition

Significant Risk

There is also a presumption under auditing standards that the risk of fraud in revenue recognition is considered to be a significant risk area.

Work done and conclusion

Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the Council, we have concluded 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; and
- The culture and ethical framework of local authorities, including Mid Devon District Council, mean that all forms of fraud are seen as unacceptable.

Fraud in expenditure recognition

Significant Risk

Practice Note 10: Audit of Financial Statements and regularity of public sector bodies in the United Kingdom sets out that the risk of fraud related to expenditure is also relevant.

We consider that the risk of fraud at the Council to be around the cut-off at year end.

Work done and conclusion

At the planning stage, we considered whether we have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

We concluded that this was not a significant risk for Mid 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.

Valuation of land and buildings and Council dwellings

Significant Risk

There is a risk over the valuation of these assets due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions and judgements.

Work done and conclusion

To address this risk, we have:

- documented our understanding of the processes and controls put in place by management, and evaluate the design of the controls;
- reviewed the instructions provided to the valuer and the valuer's skills and expertise, in order to determine if we can rely on the management expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- reviewed the appropriateness of assumptions used in the valuation of land and buildings. For assets not formally revalued in the year we assessed how management has satisfied itself that these assets are not materially different from the current value at the year-end;
- reviewed accuracy and completeness of information provided to the valuer, such as floor areas;
- tested a sample of revaluations made during the year to ensure that they have been input correctly into the Council's asset register; and
- formed our own expectations regarding the movement in property values and comparing this to the valuations reflected in the Council's financial statements, following up valuation movements that appear unusual.

There are no material issues arising from our work.

The Council were unable to provide supporting evidence to support the beacon classification (number of bedrooms etc) for five HRA properties, meaning that we were unable to verify that they had been included in the correct beacon valuation group, see section 7.

Valuation of the pension fund net liability

Significant Risk

There is a risk over the valuation of the pension fund net liability due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions.

Work done and conclusion

To address this risk, we have:

- documented our understanding of the processes and controls put in place by management, and evaluate the design of the controls;
- reviewed the instructions provided to the actuary and the actuary's skills and expertise, in order to determine if we can rely on the management expert;
- considered the accuracy and completeness of the information provided to the actuary;
- ensured that the disclosures in the financial statements in respect of the pension fund liability are consistent with the actuarial report from the actuary;
- carried out 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
- requested assurances from the auditor of Devon Pension Fund in respect of the controls around 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.

We also considered whether a material onerous funding liability existed at 31 March 2023, and confirmed that the amount was not material. See section 5 for more details.

Our procedures are complete and we have not identified any material errors from our work.

5. Other audit and financial reporting matters

Valuation of the Pension Fund

The macro-economic environment has had a significant effect on the actuarial valuation of the Council's share of Local Government Pension Scheme, with deficits reported by the Council's actuary through their IAS 19 report reducing significantly in each of the last two years.

Across the Local Government Sector accounting surpluses have become more prevalent. IFRIC 14 provides guidance from the International Financial Reporting Interpretations Committee on the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liability needs to be recognised in respect of onerous funding commitments. The sector-wide approach to applying IFRIC 14 has developed over the last year as IAS 19 surpluses are becoming more common. This has resulted in some actuaries revising their approach when producing 'asset ceiling' calculations that adopt the principles set out in IFRIC 14.

On production of the asset ceiling report for the valuation as at 31 March 2024 the Council's Actuary, Barnett Waddingham, determined that an additional liability of £1,553k should be recognised to reflect an onerous funding commitment that results from the Council's commitment to make secondary contributions over the funding horizon period set out at the Triennial Valuation.

Because the approach taken by the actuary was revised in their valuation for 31 March 2024 compared to the prior year, we asked the Council to get confirmation from the actuary whether an onerous funding commitment applied as at 31 March 2023. The actuary provided information confirming that there was no onerous funding commitment at 31 March 2023 and we are content that there is no material misstatement in the prior year balance.

3 Rivers Developments Limited

The Council approved the soft close of 3 Rivers Developments Limited in the year. A significant impact of this process was the sale of the assets of the company and clear down of the associated loans that the Council had made in respect of the projects. The Council made five purchases from the Company in 2023/24:

- Land at Knowle Lane – surplus site for potential future housing development
- Parking spaces at Halberton – Surplus site awaiting decision on use
- St Georges' Court development (Riverside) – Asset under construction, being brought into use as social housing in 2024/25
- Banksia – Single occupied dwelling, surplus site awaiting decision on use.
- 5 unsold properties at Haddon Heights, Bampton (part of 9 property development) – Assets held for sale as being actively marketed.

We have tracked the transactions relating to these purchases through the financial statements and agreed the additions to the value of Property, plant and equipment in the accounts. We have also reviewed the write down of the loans made by the Council in respect of these development, with the sale amounts partially offsetting some of the loans and the balances being written off – as has been reported by the Council.

Social Rents

Our approach for a first-year audit for the testing of HRA rental income was to select a sample of 40 HRA properties and check the weekly rental amount back to the calculated social housing formula rent for the area and type of property. Our work identified variances on all items in our sample, with the variance being both above and below our recalculation of the formula rent.

We raised our concerns with the Council about how the rental charges were being calculated and the Council then conducted further investigations into the issue. As a result of this work, the Council has identified that some of its tenants have been overcharged rent, with others being undercharged. It has subsequently contacted its tenants.

The Council has referred itself to the Regulator for Social Housing and is in the process of calculating the impact of this issue, including the amounts of any refunds due to tenants. The Council has taken legal advice and intends to apply the statutory limitation and calculate refunds going back 6 years. A provision of £1.545m has been included in the amended accounts as this is an adjusting event after the balance sheet date. We have substantially completed our review of the supporting documentation for the estimated provision and will verbally update the Audit Committee at the meeting.

6. Audit Adjustments

In accordance with the requirements of International Standards on Auditing, we must communicate all adjusted and unadjusted items identified during our audit work, other than those which we believe to be clearly insignificant.

Adjusted items

All adjusted misstatements are set out in detail below along with the impact on the key statements for the year ended 31 March 2024:

	Comprehensive Income and Expenditure Statement		Balance sheet	
	Dr	Cr	Dr	Cr
	£'000	£'000	£'000	£'000
HRA Housing rent refund provision – historical formula rent error			1,545	1,545
Total			1,545	1,545

Misclassifications and adjustments to disclosures

The table below provides details of any misclassification and disclosure changes identified during the audit.

Misclassification/ Disclosure change	Audit comment	Adjusted?
Note 16 – Members' allowances and expenses	The figures within the note disclosing members allowances and expenses had not been updated and were the figures from the 2022/23 note. This has been corrected in the amended financial statements.	✓
Accounting policy 5.2 – Going concern	The Council's accounting policy in respect of going concern refers to the Group Accounts being prepared on a basis other than going concern. While this basis of preparation is appropriate for the financial statements of 3 Rivers Developments Limited, this does not impact upon the basis of preparation for the Group Accounts.	✓
Expenditure and Funding Analysis	The Expenditure and Funding Analysis (EFA) is positioned within the accounts between the primary statements and the notes to the accounts. The EFA should be moved so that it is clear it is a note to the accounts, so that it is covered by our audit opinion.	✓

Unadjusted items

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below. (These are also set out in the Letter of Representation.)

	Comprehensive Income and Expenditure Statement		Balance sheet	
	Dr	Cr	Dr	Cr
	£'000	£'000	£'000	£'000
Mid Devon District Council's share of the net understatement of pension fund assets reported by the auditor of Devon Pension Fund.			234	234

7. Management letter points and internal control systems

The Council’s management is responsible for the identification, assessment and monitoring of risk, for developing, operating and monitoring the systems of internal control and for providing assurance to the Those Charged with Governance that it has done so.

In accordance with the terms of our engagement we have not provided a comprehensive statement of all issues which may exist in the accounting and internal control systems or of all improvements which may be made, but outline below our observations arising from the audit; none of which are considered significant.

KEY:



Observations refer to issues that are so fundamental to the system of internal control that management should address immediately to minimise the risk of a material misstatement within the financial statements.




Observations refer mainly to issues that have an important effect on the system of internal control and, if left uncorrected could potentially lead to a material misstatement within the financial statements.




Observations refer to issues that would, if corrected, improve internal control in general and engender good practice, but is unlikely to have a material impact on the financial statements.

Current Year Issues


Formula rent error	
<p>Our testing of HRA rental income identified that the Council calculated the formula rent for all of its social housing tenancies incorrectly in 2002. The Council is planning to make refunds to tenants that have been overcharged going back 6 years, in line statutory limitations and legal advice received.</p> <p>The Council has made an estimate for the impact for a provision in the accounts of £1,545m. It now needs to undertake a detailed exercise to identify the impact of all impacted tenancies. This is a significant exercise due to the scale of the issue, with approximately 2,900 properties impacted, and the nature of how some of the historical data is held.</p>	<p><u>Recommendation</u></p> <p>The Council must ensure that it allocates sufficient resources and quality assurance processes to the exercise to refund tenants that have been overcharged. It must ensure that there is a clear audit trail to enable future auditor review.</p> <p><u>Management comment</u></p> <p>Officer working groups have been formed and continue to meet regularly to move forward the correct measures. Processes have already been embedded to prevent any reoccurrence of this error. There are also regular meetings being held with the regulator, the DWP and other parties in order to ensure all corrective measures and actions are embedded in due course</p>

Classification of council dwellings	
	
<p>The Council were unable to provide supporting evidence to support the beacon classification (number of bedrooms etc) for five HRA properties, meaning that we were unable to verify that they had been included in the correct beacon valuation group.</p>	<p><u>Recommendation</u></p> <p>The Council must ensure that it holds data in respect of its council dwellings to support that they are classified within the correct beacon for valuation purposes.</p> <p><u>Management comment</u></p> <p>The council holds a variety of data relating to each dwelling for various reasons, including tenancies, maintenance and valuations. These are cross checked and reconciled to ensure the data is accurate and consistent. Further evidence will be obtained for those five specific properties.</p>

Prior Year Issues reported by the predecessor auditor– Unresolved

Journal system controls	
 <p>Grant Thornton reported 2022/23 that the Council do not have an inbuilt journals authorisation process in place. This means that users can post and authorise their own journals. A mitigating detective control exists wherein all journals above £25,000 posted in the month are reviewed by principal accountants in the subsequent month. Testing of this control identified that this control did not operate as designed and the retrospective review was not undertaken until September 2023, once the evidence was requested.</p>	<p><u>2022-23 recommendation</u></p> <p>That the Council ensures that retrospective controls operate as designed.</p> <p><u>2023-24 update</u></p> <p>Management have confirmed that the mitigating control of journals over £25,000 being reviewed monthly has not been operating due to staffing issues and prioritisation of other tasks. Management is relying on the budget monitoring process to identify any issues with journals that have been posted.</p> <p><u>2023-24 recommendation</u></p> <p>The Council must ensure that the retrospective control, reviewing journals over £25,000 is operating in line with its journal procedures.</p> <p><u>Management comment</u></p> <p>During 2023/24 the finance team suffered from significant sickness and vacancies in key senior positions, leading to limited resources being available for reviewing / approving journals. The process was undertaken in the first part of the year, while resource was available. The risk was considered and felt to be minimal, so was not completed in the second half of the year. Given the unqualified opinion, the assessment of that level of risk is verified. However, the process will be reapplied during 2024/25.</p>

Prior Year Issues reported by the predecessor auditor – Resolved

Debtor and creditor populations	
	
<p>Grant Thornton reported in 2021/22 and 2022/23 that selecting samples for debtors and creditors testing had been made difficult as the Council were unable to provide a list of amounts owed/due at the year end. As the populations were not cleansed the audit team had to adjust their testing strategy to ensure that they were not testing brought forward or contra balances.</p>	<p><u>2022-23 recommendation</u></p> <p>That the Council endeavour to provide cleansed populations in these two areas.</p> <p><u>2022-23 Management comment</u></p> <p>The Local Authority (SOA) disclosure requirements for debtors/creditors makes it difficult for us to simplify our reports without considerable work. Historically this hasn't been a significant issue and seems more to do with a change in audit requirements. We will of course endeavour to refine our reports and working papers to benefit future audits and will work with the audit team, in advance of the year end , to try and ensure we can provide data to assist the testing process.</p> <p><u>2023-24 update</u></p> <p>We did not identify any significant issues when selecting our samples for debtors and creditors and consider this issue to have been resolved.</p>

8. Other matters

Other information

We are required to give an opinion on whether the other information published with the audited financial statements (for example, the Narrative Statement and Annual Governance Statement) is materially inconsistent with the financial statement or our knowledge as obtained during the audit.

The introduction by the Leader to the draft Statement of Accounts includes comments referring to the current and previous administration of the Council that could be construed as being politically motivated. The Code sets out that the narrative report should be fair and balanced. While the introduction is not part of the narrative report, it does form part of the other information within the statement of accounts that we consider as part of the other information.

Reporting by exception

We are required to report to you by exception the following matters, if:

- the Annual Governance Statement does not comply with "Delivering Good Governance in Local Government: Framework 2016 Edition" published by CIPFA/SOLACE; or
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Council 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 on these matters.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

Going concern

Our work has not identified a material uncertainty related to going concern. We are satisfied that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Value for money arrangements

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024. The Code of Audit Practice requires us to report on the Council's arrangements under three specified reporting criteria:

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

We asked management to complete an evidenced self-assessment of the Council's arrangements. We then reviewed the evidence provided and carried out follow-up work as appropriate to consider whether there are any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The predecessor auditor's value for money work as reported in their 2022/23 Auditor's Annual Report to the Council in March 2024 highlighted 'significant weaknesses' in the Council's arrangements for governance and improving economy, efficiency and effectiveness (3Es). These significant weaknesses related to 3 Rivers Developments Limited. The Council has been taking action to address the issues identified with the implementation of the plan to close down 3 Rivers Developments Limited during the financial year, which had been substantially completed by the year end. However, given the timing of the 2022/23 report, we have considered whether the significant weaknesses still applied to the 2023/24 financial year. We have concluded that the significant weakness in the Council's arrangements for the 3Es in respect of 3 Rivers Developments Limited still applied during the 2023/24 financial year.

Our audit procedures identified that the Council has not been setting the rents for its housing tenants in line with the formula rent requirements set out by the Government. This is an historic issue, going back a number of years but the Council's arrangements for setting the rent each year had not identified this issue. We have concluded that this is a significant weakness in the Council's governance arrangements.

The results of the Value for Money work are reported separately in our Auditor's Annual Report.

Whole of Government accounts work

Alongside our work on the financial statements, we also review and report to the National Audit Office on the Council's Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have received the group instructions from the National Audit Office in respect of our work on the Council's WGA submission and will complete this work alongside the conclusion of our audit work.

Audit certificate

At the end of the audit, as auditors, we are required to certify the completion of the audit. The effect of this certificate is to close the audit and marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.

We will be unable to issue our audit certificate alongside the auditor's opinion on the accounts until we have received confirmation from the NAO that no additional work (beyond submission of the Assurance Statement) will be required in respect of the Whole of Government Accounts exercise.

Audit fees

Our final fee for the 2023/24 audit (pending finalisation of our audit work) is set out below:

	Fee proposed at planning stage (£)	Final fee (subject to approval by PSAA) (£)
PSAA scale fee 2023/24	148,667	148,667
Fee variation for additional procedures in relation to the revision to ISA 315	TBC	11,995
Fee variation in relation to additional work in respect of the risks of significant weakness for the VFM work	-	6,200
Fee variation in respect of our work in respect of questions raised by local electors.	-	9,000

Fee variation in respect of our additional work in respect of the social rents issue.	-	TBC
Total (excluding VAT)	148,667	TBC

We can confirm that we have not undertaken any non-audit work at the Council during the year.

9. Audit backlog update

On 9 September 2024, the Secretary of State for MHCLG laid regulations to introduce statutory deadlines for publication of audited accounts amending the Accounts and Audit Regulations 2015. This came into force on 30 September with the intention of addressing the backlog in local government accounts.

For the 2023/24 financial year, under these new regulations, an authority must publish its accountability statements (namely its audited statement of accounts, annual governance statement and narrative statement) on or **before 28 February 2025**.

This follows on from proposals from the Department for Levelling Up, Housing and Communities (DLUHC) outlined a comprehensive plan before the general election which involved three key phases to address the audit backlog and reform the local audit process:

1. **Reset Phase:** This phase focuses on clearing the backlog of audits up to the financial year 2022/23 by a proposed backstop date. Auditors would be required to issue opinions based on the work completed at a backstop date, even if it means providing modified or disclaimed opinions due to the tight deadlines.
2. **Recovery Phase:** Following the reset, this phase aims to stabilize the audit process and prevent future backlogs by setting clear backstop dates for subsequent years. The goal is to ensure that audits are completed timely while maintaining auditor independence and compliance with auditing standards.
3. **Reform Phase:** This long-term phase addresses systemic challenges within the local audit system. It includes measures to enhance auditor capacity, improve financial reporting standards, and ensure sustainable and timely audits. The Financial Reporting Council (FRC) and other system partners will play a crucial role in implementing these reforms.

The intention when this plan was issued was that the backstop date for 2022/23 audits would be 30 September 2024. The general election delayed the finalisation of plans and supporting changes in legislation and guidance required. The first backstop date has now been set as 13 December 2024 to clear the backlog of unaudited accounts up to and including financial year 2022/23.

The legislation includes five further backstop dates up to and including financial year 2027/28 to allow for a phased return to a timely audit sign-off. The proposed backstop dates are:

- FY up-to-and-including 2022/23: 13 December 2024
- FY 2023/24: 28 February 2025
- FY 2024/25: 27 February 2026
- FY 2025/26: 31 January 2027
- FY 2026/27: 30 November 2027
- FY 2027/28: 30 November 2028

Appendices



1. Letter of representation

Bishop Fleming LLP
Salt Quay House
4 North East Quay
Sutton Harbour
Plymouth
Devon
PL4 0BN

[Date]

Dear Sirs

Mid Devon District Council

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the Mid Devon District Council (the Council) financial statements for the year ended 31 March 2024. These enquiries have included inspection of supporting documentation where appropriate, and are sufficient to satisfy ourselves that we can make each of the following representations. All representations are made to the best of our knowledge and belief.

1. General

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code) and applicable law and for being satisfied that they give a true and fair view and for making accurate representations to you.

All the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

All the accounting records have been made available to you for the purpose of your audit of the Council. We have provided you with unrestricted access to all appropriate persons within the Council, and with all other records and related information requested, including minutes of all Council and Committee meetings.

The financial statements are free of material misstatements, including omissions.

The effects of uncorrected misstatements (as set out in the appendix to this letter) are immaterial both individually and in total.

2. Internal control and fraud

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe that we have appropriately fulfilled these responsibilities. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.

We have disclosed to you all instances of known or suspected fraud affecting the Council involving management, employees who have a significant role in internal control or others where fraud could have a material effect on the financial statements.

We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the Council's financial statements communicated by current or former employees, analysts, regulators or others.

3. Assets and liabilities

The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the notes to the financial statements.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include PPE and investment property valuations, pension liability and NNDR provisions

All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.

We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

4. Accounting estimates

The methods, data and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement and disclosure that is reasonable in the context of the applicable financial reporting framework.

5. Legal claims

We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.

6. Laws and regulations

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We confirm that all correspondence with our Regulators has been made available to you.

7. Related parties

Related party relationships and transactions comply with the Council's financial regulations, relevant requirements of the Code and have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with regulatory, legislative and accounting standards requirements.

8. Subsequent events

All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

9. Going concern

We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that the financial reporting framework applicable to local government bodies means that the anticipated continued provision of entity's services in the public sector is normally sufficient evidence of going concern. We have not identified any material uncertainties related to going concern.

10. Annual Governance Statement

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

11. Narrative Report

The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We have taken all the appropriate steps in order to make ourselves aware of any relevant audit/ other information and to establish that you are aware of that information.

Yours faithfully

.....
Signed on behalf of the Audit Committee of Mid Devon District Council

[Date]

2. Required communications with the Audit Committee

Under the auditing standards, there are certain communications that we must provide to the Audit and Governance Committee as those charged with governance. These include:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Plan
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Plan
With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of those charged with governance to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. 	Audit Completion Report Discussions at audit committees
Significant matters arising during the audit in connection with the entity's related parties.	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters significant to the oversight of the financial reporting process or otherwise identified during the audit that we believe will be relevant to the Committee when fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations	Audit Completion Report Discussions at audit committees
Significant matters in relation to going concern.	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report
Confirmation of independence and objectivity of the firm and engagement team members.	Audit Plan Audit Completion Report



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