

The Audit Findings for Mid Devon District Council

Year ended 31 March 2022

12 January 2023



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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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Name : Peter Barber
For Grant Thornton UK LLP
Date : 12 January 2023

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Mid Devon District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's] income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We commenced our post-statements audit in September 2022 and as at 12 January 2023 our audit is substantially complete. This year we adopted a hybrid approach involving a combination of on-site and remote working. Our findings are summarised on pages 5 to 21.

Our work to date has not identified any material errors or adjustments to the financial statements. No adjustments have been identified that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

Two adjustments to the draft financial statements of 3 Rivers Developments Ltd as a result of their audit, this will require adjustments to the Council's group financial statements. These changes are set out in more detail on page 10. There were no issues noted in relation to the procedures followed by the Council in consolidating the Group financial statements.

We have recommended a small number of other audit adjustments to improve the presentation of the financial statements as detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

The draft financial statements were submitted for audit in line with the agreed timetable, along with supporting working papers.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements.

Subject to completing our remaining audit procedures set out on page 5, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion in January 2023.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 28 February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified two risks in respect of the financial sustainability and group governance. Our work on these risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in February 2023.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

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

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks;
- We have relied upon the work of 3 Rivers Development Ltd auditor for material balances consolidated into the group accounts.

Other than a revision to our materiality levels as set out on page 6, we have not had to alter our audit plan, as communicated to you on 23 May 2022.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 January 2023, as detailed in [Appendix E]. These outstanding items include:

- Completion of our work on the Council's Pension Fund liability;
- Completion of our work on Long Term Debtors (1 items)
- Final review by the Manager and Engagement Lead on outstanding work;
- Receipt of management representation letter;
- Review of the final set of financial statements;
- Completion of our subsequent events review;
- Receipt of final group findings and audit report from Simkins Edwards LLP in respect of 3 Rivers; and

2. Financial Statements



Our approach to materiality

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

We have revised materiality, performance materiality and our level of triviality due to the actual gross expenditure being higher than the level that we expected and used at the planning stage.

We detail in the table our determination of materiality for Mid Devon District Council and group.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	0.875m	0.830m
Performance materiality	0.655m	0.620m
Trivial matters	0.040m	0.040m
Materiality for Senior Officer Remuneration	10,000	10,000



2. Financial Statements - Significant risks

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

Risks identified in our Audit Plan	Commentary
<p>Group Revenue</p> <p>Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue and expenditure recognition.</p> <p>For Mid Devon District Council, we have concluded that the greatest risk of material misstatement relates to Group Revenue. We have therefore identified the occurrence and accuracy of 3 Rivers Developments Ltd trading income as a significant risk of material misstatement, and a key audit matter.</p> <p>We have rebutted this presumed risk for all the other revenue streams of the Authority because:</p> <ul style="list-style-type: none"> • Other income streams are primarily derived from grants or formula based income from Central Government and tax payers; and • Opportunities to manipulate revenue recognition are very limited. 	<p>In our Audit Plan we set out that 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:</p> <ul style="list-style-type: none"> • 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 Mid Devon District Council mean that all forms of fraud are seen as unacceptable. <p>We have re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment.</p> <p>We also set out in the Audit Plan that we have not rebutted this presumed risk for the subsidiary company. For Group Revenue we have:</p> <ul style="list-style-type: none"> • Evaluate the group’s accounting policies for the recognition of income for appropriateness; • Gained an understanding of the group’s system for accounting for income and evaluate the design of the associated controls; and • Agreed, on a sample basis, the amounts recognised as income in the financial statements to supporting documents. For this work we have relied upon the work of the component auditor. <p>Our work has identified no issues in relation to revenue recognition.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Management override of controls

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

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

As part of our work to date we have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions;
- reviewed the component auditors work in relation to management override on control; and
- tested high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration.

Our audit work has not identified any issues with regards to management override of controls. For all the journals reviewed we concluded that they were appropriate transactions.

Valuation of land and buildings and Council Dwellings (Rolling Revaluation)

The group revalues its land and buildings and Council Dwellings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£194m) and the sensitivity of this estimate to changes in key assumptions.

We therefore identified valuation of land and buildings as a significant risk, in particular any large or unusual assets or where there have been movements in valuations outside our expectations, as well as testing a sample of those within our expectations. This is one of the most significant assessed risks of material misstatement, and a key audit matter.

As part of our work we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by the valuer for those assets revalued at 31 March 2022. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to current value at year end.

Our work has identified no issues in relation to the valuation of land and buildings and council dwellings.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

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 (£77m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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

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

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where our consulting actuary has indicated that a 0.1% change in this assumption would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

At the time of writing this report we have not identified any significant issues that we need to bring to your attention, however, we are currently awaiting to responses to our final queries on this risk.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Mid Devon District Council	Grant Thornton UK LLP	<p>A full scope audit was completed by Grant Thornton UK LLP. The findings to date of this work, on the significant risks, are set out on pages 7 to 9.</p> <p>No significant issues have been identified at the time of writing this report.</p>	No findings have been identified that would impact on the group opinion.
3 River Developments Ltd	Simkins Edwards LLP	<p>We have completed our work on the group audit, with the exception of receiving Simkins Edward final audit report. This has not been issued at the time of writing this report as, following the audit, increased disclosures are required in the subsidiary accounts. These are in relation to the reliance on support from Mid Devon District Council. This will be referred to in the subsidiary auditors report as an emphasis of matter.</p> <p>As part of our audit procedures we have:</p> <ul style="list-style-type: none"> • agreed the overall consolidation including alignment of accounting policies, and • agreed consolidation adjustments. <p>We identified no issues in relation to these procedures.</p> <p>Post consolidation adjustments there were three areas where material amounts remained in the consolidated accounts. These were Revenue, Cost of Sales, and Work in progress.</p> <p>For each of these areas we reviewed the work of the component auditor. We found the work of the auditor, to be of sufficient quality and scope for us to be able to rely upon it. There were no issues noted as part of their work in these three areas, therefore we have sufficient evidence to concluded that these consolidated amounts are not materiality misstated.</p> <p>We completed a walkthrough of group revenue to confirm our understanding of the controls in place. This work did not identify any issues.</p> <p>The component auditor has reported the following adjusted misstatements that will need to be considered for group purposes. These are:</p> <ul style="list-style-type: none"> - A required increase to the provision for on the St George's development. Directors revisited this as part of business plan preparation and subsequently increased the provision by £0.222m, further increasing the write down of work in progress from c£1.4m to c£1.6m. - Overstatement of deferred tax asset – The impact of this is to reduce the company's current assets by £0.492m. <p>The net impact of these two adjustments is £0.714m. This is above our group performance materiality and we have therefore requested management consider the need to restate the group financial statements in light of these audit findings.</p>	The group accounts have been updated to reflect the findings of the subsidiary auditor. These findings are set out in appendix C.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £42.256m	<p>Other land and buildings comprises £19.9m of specialised assets such as leisure centres and public conveniences, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£22.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the District Valuer to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 20% of total assets were revalued during 2021/22., with the remainder subject to a desktop review using indices.</p> <p>The total year end valuation of land and buildings was £42.256m, a net decrease of £0.346mm from 2020/21 (£42.602m).</p>	<p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> Assessed management's expert to ensure suitably qualified and independent, Assessed the completeness and accuracy of the underlying information used to determine the estimate, Confirmed there were no changes to valuation method, Assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and Assessed the adequacy of disclosure of the estimate in the financial statements. <p>No issues have been identified at the time of writing this report, however, our work remains in progress and are therefore not able conclude our overall assessment.</p>	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £152.6m	The Council owns 2,969 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was £152.6m, a net increase of £1.8m from 2020/21 (£150.8m).	<p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> Assessed management's expert to ensure suitably qualified and independent, Assessed the completeness and accuracy of the underlying information used to determine the estimate, Confirmed there were no changes to valuation method, Assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and Assessed the adequacy of disclosure of the estimate in the financial statements. <p>No issues have been identified at the time of writing this report, however, our work remains in progress and are therefore not able to conclude our overall assessment.</p>	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability – £70m

The Council's net pension liability at 31 March 2022 is £70m (PY £75m) comprising the Devon Pension Fund Local Government funded defined benefit scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £11m net actuarial gain during 2021/22.

At the time of writing this report our work on this risk remains in progress. We have carried out the following work in relation to this estimate:

- Assessed management's expert to ensure suitably qualified and independent,
- Assessed the actuary's roll forward approach taken,
- We have used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below summarises where Mid Devon District Council fall in the acceptable ranges set by PwC:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.6%	2.55% - 2.60%	●
Pension increase rate	3.2%	3.05% - 3.45%	●
Salary growth	4.2%	1% above CPI of 3.20%	●
Life expectancy – Males currently aged 45 / 65	Current 24 Future 22.7	Current 21.9-24.4 Future 20.5-23.1	●
Life expectancy – Females currently aged 45 / 65	Current 25.4 Future 24.0	Current 24.9–26.4 Future 23.4-25	●

We are currently:

- gaining assurance over the completeness and accuracy of the underlying information used to determine the estimate,
- gaining assurance over the reasonableness of the Council's share of LGPS pension assets, and
- reviewing the adequacy of disclosure of the estimate in the financial statements.

Light purple

Assessment

● **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

● **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

● **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

● **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £1.663m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £1.663m, a net decrease of £0.028m from 2020/21.</p>	<p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> Ensured that MRP has been calculated in line with the statutory guidance; Ensured the Council's policy on MRP complies with statutory guidance; Assessed the reasonableness of the increase in MRP charge. <p>Based on the work completed we concluded that the MRP charge was reasonable and in line with debt held by the Council.</p>	Light purple

Assessment

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

2. Financial Statements - Internal Control

Our work identified no significant internal control issues to report.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

2. Financial Statements - matters discussed with management

This section provides commentary on the matters we discussed with management during the course of the audit.

Matter	Commentary	Auditor view and management response
Expected credit loss	<p>The Council is required to consider each year the potential impairment of financial instruments using the expected credit loss model. This is set out in IFRS9.</p> <p>Instruments that fall within the scope of IFR9 for the Council are:</p> <ul style="list-style-type: none"> • Loans; • Trade receivables; • Financial guarantees; and • Lease receivables. <p>In previous financial years the loans to 3 Rivers Development limited have been impaired by £0.790m.</p> <p>We have discussed with management whether or not this amount remains appropriate given the delays to the St Georges site (against which the original provision was made).</p>	<p>Management have reassessed the likelihood of loan default using scenario planning (based on weighted averages) and have concluded that the original impairment remains appropriate.</p> <p>Although the St Georges site has experienced delays the company's business plan sets out that across the portfolio of schemes profits will be made and as such the risk of default is low.</p> <p>Management will revisit this assessment in each year and will revise this provision accordingly as required.</p> <p>We have reviewed the calculations prepared by the Council and have concluded that the provision is reasonable.</p>

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended to this report.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of the requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA [UK] 570).

Issue	Commentary
<p>Going concern</p>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. <p>We have noted that the component auditor is proposing to include an emphasis of matter in their audit report in relation to going concern for the subsidiary. This is to draw the readers attention to the reliance of the subsidiary on loans from the Council. We understand that a letter of continued support has been requested from the Council and that this is being provided.</p> <p>We have been discussing the impact of the emphasis of matter on 3 Rivers with management in respect of any potential impact on the Council's overall adoption of the going concern assumption. Although the Council recognise this increases the risk of credit loss at a group level they do not consider it material to the overall adoption of the going concern assumption. We concur with the Council's view that this would not represent a materiality uncertainty in this respect.</p>

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We have nothing significant to report on these matters. A small number of minor changes were made to the draft statements.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>No detailed work is required in this area as the Council is below the thresholds set by the NAO.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Mid Devon District Council in the audit report, as detailed in Appendix E, due to incomplete VFM work.</p>

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 28 February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness	Work performed to date
<p>Financial Sustainability</p> <p>In 2021/22 the Council are forecasting a budget surplus of £30k. The Council delivered a small deficit in the 2020/21 of £65k. The Authority's financial statements (2020/21) reported that the usable reserves have increased from £43m to £53m mainly due to the impact of covid funding on the collection fund. There remains financial uncertainty across the sector and the Council have a cumulative budget gap of £2.2m through to 2026/27, £1.7m of which is profiled to impact in 2023/24. In setting a balanced budget for 2022/23 £0.989m New Homes Bonus has been used. This was used to fund capital projects and close the revenue budget gap.</p> <p>In response to this risk we will follow up prior year recommendations, review new savings plans identified to date, and review key assumptions underpinning the MTFP for reasonableness.</p>	<p>Our detailed work in this area is still in progress as well as our follow up of prior year recommendations. The Council's outturn position against its revenue budget for 2021/22 was a surplus of £29k on the general fund and £67k on the HRA. The Council's usable reserves have also increased by £3,416k to £56,745k in 2021/22.</p> <p>The 2022/23 budget was approved at Council on 23 February 2022, with the detailed proposals presented to Cabinet on 1 February 2022. We have carried out a high-level review of the assumptions underpinning both the budget and the medium term financial plan and found them to be reasonable, in the context of the national and global volatility.</p> <p>Despite the Council delivering an in year surplus the financial future remains challenging. This challenge is not one that the Council face alone. The Council's current medium term financial plan shows a budget gap of £2,165k through to 2026/27. There also remains an increasing level of uncertainty around LG finance and in addition the rising levels of inflation. It is therefore crucial that the Council remain focused on maintaining its strong level of reserves and generating cost efficiencies.</p>
<p>Group Governance</p> <p>The group continues to evolve and as such so do the governance requirements. We raised a number of recommendations in this area in our 2020/21 Auditors Annual Report (and in prior years). Whilst we acknowledge that good progress has been made this remains an area of focus.</p> <p>In response to this risk we will follow up prior year recommendations, review internal audits work in this area, and review the latest business plans and performance monitoring arrangements.</p>	<p>Our work in this area is in progress. We have now completed sufficient work to ensure that there is no potential impact on the financial statements.</p> <p>We continue to have regular catch ups with management that cover group governance. Whilst our work against this risk is not yet complete these discussions have not highlighted significant concerns in relation to group governance.</p> <p>We have reviewed internal audits work and these have not highlighted any potential significant risk areas.</p> <p>We are aware that the latest Business Plan is awaiting approval, once approved we will carry out our review on this version as well as concluding on our follow up of prior year recommendations.</p>

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

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

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,000 (billed in 2021/22)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £62,080 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	17,775 (billed in 2021/22)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,775 in comparison to the total indicative fee for the audit of £62,080 and in particular is not significant 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

At the time of writing this report we have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p>Our work to date has identified an area for improvement for the Council's consideration. Selecting samples for our debtors and creditors testing has been made more difficult as the Council were unable to provide a list of amounts owed/due at the year end. As the populations are not cleansed the audit team have had to adjust our testing strategy to ensure we are not testing bought forward or contra balances.</p>	<p>We recommend that going forward the Council endeavour to provide cleansed populations in these two areas.</p> <p>Management response</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 the 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>

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Mid Devon District Council's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented this recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Subsidiary Company audit requirement</p> <p>The Companies Act provision in s479 highlights that the small company audit exemption cannot be taken by a company when the company is part of a group who are above the small company threshold.</p> <p>We identified that the Council's subsidiary company does not have audits undertaken.</p> <p>We therefore recommended that management arrange for an audit to be undertaken on their subsidiary company.</p>	<p>This recommendation was accepted by management and as part of our procedures we have confirmed that there is now an appointed auditor for the company.</p> <p>The appointed auditor is Simpkins Edwards LLP. We have included more details on our 2021/22 work in this area within the group section of this report.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments



Impact of unadjusted misstatements

At the time of writing this report there are no unadjusted misstatements to bring to your attention. There were also no unadjusted misstatements noted as part of our 2020/21 audits.

C. Audit Adjustments

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Overstatement of deferred tax asset in 3 Rivers Development Ltd accounts	492,000	(492,000)	492,000
Increased provision for loss on St George's development in 3 Rivers Development Ltd accounts	222,134	(222,134)	222,134
Overall impact	714,134	(714,134)	714,134

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
Our work noted that the Council have included in their Audit Fee disclosure the values that have been billed plus estimated costs for additional fees. This was based on the information provided at the time of producing the draft financial statements. We have noted some minor adjustments to this note. The audit fees payable for certification was adjusted from £20k to £23k. This is the amount billed for certification in 21/22. We also requested that the Council add a narrative disclosure to clarify that the Audit Fee relating to 2021/22 is £62,080.	✓
Our work identified that the Grant Income comparator did not agree to PY audited accounts. £168k identified in 21/22 relates to 20/21 and has been restated in the accounts. Since the balance is not material, restatement needed to be reversed from the note comparator and included in the current year (21/22) income. Prior Period adjustments are only allowable by the Code where they are material.	✓
During the course of the audit a number of small disclosure amendments were made to the financial statements, and Annual Governance Statement. These have not been reported separately due to their insignificant nature.	✓

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	62,080	62,080
Total audit fees (excluding VAT)	£62,080	£62,080

Due to the late communication of the proposed 21/22 audit fee the audit fee included in note 14 of the financial statements does not agree to the value set out here and set out further on the following page.

The amounts included in the financial statements are the amounts billed in plus estimated additional charges.

The Council have inserted a disclosure note clarifying that the Audit Fee for 2021/22 is £62,080.

Non-audit fees for other services	2020/21	Proposed fee 2021/22	Final fee
Audit Related Services			
Certification of Housing Benefits	£17,775	£11,500 *	TBC
Certification of Pooling of Housing Capital Receipts	£5,000	7,500	TBC
Total non-audit fees (excluding VAT)	£22,775	£19,000	TBC

* The fee quoted for Housing Benefits is the base fee and additional fee will be charged based on any extended testing required.

Audit fees – detailed analysis - Council

Scale fee published by PSAA	£39,729
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Increased challenge, complexity and lower materiality	£3,125
Enhanced audit procedures for Property, Plant and Equipment including our own audit expert	£688
Enhanced audit procedures for Pensions	£688
Group audit	£3,750
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£5,100
Recurring Audit fee 2020/21	£62,080
Infrastructure	-
Remote Working*	-
Additional fee 2021/22	-
Total audit fees (excluding VAT)	£62,080

*The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local authorities are exploring new ways of working to support its officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to the Council, and its workforce, both in providing more flexibility and reducing its environmental impact. Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

At the planning stage we were proposing an additional remote working charge of £5,000. This was where we were unable to work on site. For Mid Devon District Council this charge does not apply as we were able to work on site where needed.

E. Audit opinion

Our audit opinion is included below.

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

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Mid Devon District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Deputy Chief Executive (S151) use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Deputy Chief Executive (S151)'s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

E. Audit opinion (continued)

In auditing the financial statements, we have concluded that the Deputy Chief Executive (S151)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Deputy Chief Executive (S151) with respect to going concern are described in the 'Responsibilities of the Authority, the Deputy Chief Executive (S151) and Those Charged with Governance for the financial statements' section of this report.

Other information

The Deputy Chief Executive (S151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Deputy Chief Executive (S151) and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Chief Executive (S151). The Deputy Chief Executive (S151) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Deputy Chief Executive (S151) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion (continued)

In preparing the financial statements, the Deputy Chief Executive (S151) is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014,

- We enquired of senior officers and the Audit Committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- the Accounts and Audit Regulations 2015 and the Local Government Act 2003. We also identified the Local Government and Housing Act 1989, and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Deputy Chief Executive (S151) has in place to prevent and detect fraud;
 - journal entry testing, with a focus on unusual transactions;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, and defined benefit pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

E. Audit opinion (continued)

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditors'.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - **the provisions of the applicable legislation**
 - **guidance issued by CIPFA, LASAAC and SOLACE**
 - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

E. Audit opinion (continued)

Responsibilities of the Authority

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

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

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

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

Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

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

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

We cannot formally conclude the audit and issue an audit certificate for Mid Devon District Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,

the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

F. Management Letter of Representation

Grant Thornton UK LLP
 2 Glass Wharf
 Temple Quay
 Bristol
 BS2 0EL

[Date]

Dear Sirs

Mid Devon District Council

Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Mid Devon District Council and its subsidiary undertaking, 3 Rivers Developments Limited for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities for the preparation of the group and 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 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

Except as disclosed in the group and Council financial statements:

- there are no unrecorded liabilities, actual or contingent
- none of the assets of the group and Council has been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

F. Management Letter of Representation (continued)

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

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

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

- the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
- the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

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

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 financial statements.

We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

G. Audit letter in respect of delayed VFM work

Dear Chair of the Audit Committee

VFM Reporting 2021/22

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Peter Barber

Director

Delivering audit quality

Audit quality is at the heart of what we do. It's something we're proud of. It's our focus – and highest priority. The latest FRC findings are evidence of this:

- We're the first firm to ever be awarded the highest quality grading for 100% of files reviewed
- For the second consecutive year we have the highest proportion of audits with the top-quality grades out of the seven largest auditing firms

You'll be working with a firm who focus in the right areas:



Quality Control Systems and Engagement Level



Review Team



Technical Support



Client Feedback



Clear approach to concluding key accounting matters

Driving audit quality – today, tomorrow, beyond

Our annual Transparency Report, [accessible here](#), sets out how we drive audit quality in the UK and the Global Transparency Report, provides an overview of how member firms are expected to consistently deliver high-quality audits.

We continuously evolve our audit practice, so we deliver quality against the backdrop of continually evolving scrutiny and challenge, whilst ensuring we exceed client stakeholder expectations.

Our commitment to quality, includes us continuing to:

- hold ourselves accountable. It's what our Audit Quality Board, with external audit experts, does
- challenge ourselves. It's why we have a continuous improvement approach focussed on how we can be even better year on year, in technical skills, project management skills, digital, culture, and working as effectively as possible with you
- invest, significantly. It's why we have centres of excellence and an Audit Quality Academy, and have grown and developed our IT audit and Digital Audit Technology practices

External monitoring – a proven track record

[Click here](#) to see the Financial Reporting Council (FRC) latest inspection report into our firm, published on 20 July 2022.

The graph below shows Grant Thornton is the only firm to have all files reviewed in the highest quality grading bracket awarded (“Good or limited improvements required”).

“We choose where to focus our resources and attention. It's why we will only work with businesses like you, who share our commitment to quality, a passion for excellence and where we are sure that we can deliver a top-quality client experience.”

Fiona Baldwin

Partner, UK Head of Audit

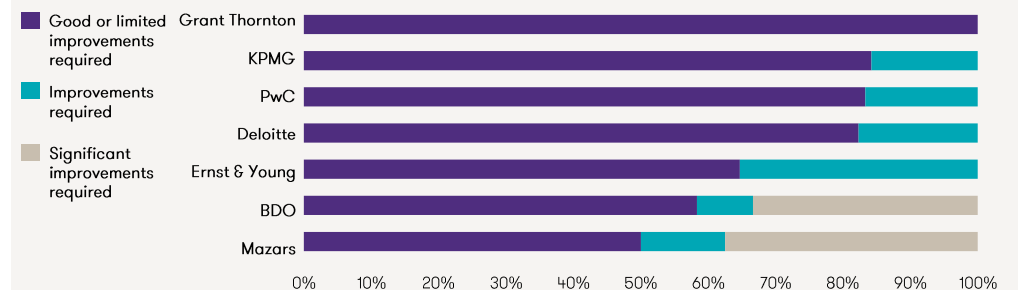


We are immensely proud of the “good practice” areas highlighted by the FRC:

- Detailed reporting and effective communication with Audit Committees
- Robust challenge and scepticism to Management's accounting around complex areas, particularly around impairment and journals
- Discussions with those outside of the finance team to provide broader audit evidence and insight

In our recent reports, our internal use of specialists and approach to use of data analytics has also been highlighted by the regulator; both of which remain integral to the success of our results and approach to quality.

FRC's Audit Quality Inspection and Supervision Report Findings 2021-22 (%), July 2022



Delivering audit quality – proven success in regulatory inspections

The Financial Reporting Council (FRC) published the findings of its annual Quality Inspection of our firm, alongside the six other ‘Tier One’ auditing firms in the UK, on 20 July 2022.

Our results

- We’re the first firm to ever be awarded the highest quality grading for 100% of files reviewed
- For the second consecutive year, we have the highest proportion of audits with the top-quality grades out of the seven major firms
- [Click here](#) to see FRC’s latest inspection report into our firm. The graph to the right shows Grant Thornton is the only firm to have all files reviewed in the highest quality grading bracket awarded (“Good or limited improvements required”).

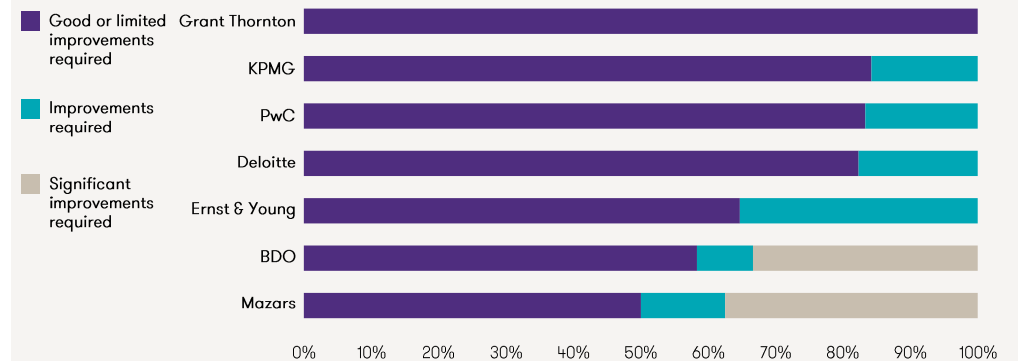
Continued commitment to audit quality

We continuously evolve our audit practice, so we deliver quality against the backdrop of continually evolving scrutiny and challenge, whilst ensuring we exceed client stakeholder expectations. The past two FRC inspection results are evidence of this.

Our commitment to quality, includes us continuing to:

- **hold ourselves accountable.** It’s what our Audit Quality Board, with external audit experts, does
- **challenge management.** It’s part of our approach – to robustly explore areas that are complex, significant or highly judgmental, for example, certain accounting estimates, going concern evaluations, revenue recognition and other such areas
- **challenge ourselves.** It’s why we have a continuous improvement approach focussed on how we can be even better year on year, in technical skills, project management skills, digital, culture, and working as effectively as possible with you
- **invest, significantly.** It’s why we have centres of excellence and an Audit Quality Academy, and have grown and developed our IT audit and Digital Audit Technology practices

FRC’s Audit Quality Inspection and Supervision Report Findings 2021-22 (%), July 2022



What has the FRC said about us?

Our firm is immensely proud of the “good practice” areas highlighted by the FRC:

- Detailed reporting and effective communication with Audit Committees
- Robust challenge and scepticism to Management’s accounting around complex areas, particularly around impairment and journals
- Discussions with those outside of the finance team to provide broader audit evidence and insight

In our recent reports, our internal use of specialists and approach to use of data analytics has also been highlighted by the regulator; both of which remain integral to the success of our results and approach to quality.



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