

# The Audit Findings for South Hams District Council

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Year ended 31 March 2020

15 October 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of the South Hams District Council ('the Council') and the preparation of the group Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• Give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and</li> <li>• 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.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely during June to October 2020. Our findings are summarised on pages 6 to 17. Audit adjustments are detailed in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work 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 the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• cut-off testing for Debtors and Creditors;</li> <li>• finalisation of our review of the provision for NDR appeals;</li> <li>• completion of our audit procedures on the Council's net defined pension liability, including receipt of assurances from the Devon Pension Fund auditor;</li> <li>• completion of our review of the valuation of the Council's land and buildings and the related accounting treatment;</li> <li>• receipt of our final bank confirmation;</li> <li>• final quality review of the file and receipt of satisfactory responses to our outstanding queries;</li> <li>• receipt of the signed management representation letter (on the agenda); and</li> <li>• review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of land and buildings and investment properties – refer to page 8 for further detail. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that South Hams District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18 to 21.</p>

## Headlines (continued)

### Statutory duties

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

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

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

We have completed the majority of work under the Code, however, the areas outlined on page 3 are still to be concluded.

### Covid-19

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

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

We considered in our audit risk assessment the impact of the pandemic on our audit and issued an audit plan on 26 March 2020. In the plan, we reported a financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing.

We started our audit on 15 June 2020. The Council's financial statements were provided on 23 July 2020, in advance of the revised national deadline, however we did receive draft working copy on 18 June 2020. In most areas, management have provided good working papers and there has been a responsive attitude to audit queries which reflect really well on the Council from an audit perspective. As expected, the finance team has been stretched throughout lockdown, producing the accounts and dealing with audit queries, alongside the "day job" and the requirements of additional government returns, and internal reporting. There are some areas where working papers could be improved, and we have discussed these with management throughout the audit.

### Acknowledgements

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

# Audit approach

## Overview of the scope of our audit

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

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

## Audit approach

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

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 24 March 2020.

## 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, as detailed in Appendix E.

## Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for South Hams District Council.

	£,000	Qualitative factors considered
Materiality for the financial statements	967	The Council operates in a stable, publicly funded environment.
Performance materiality	725	75% of materiality, no history of deficiencies or large number of misstatements.
Trivial matters	48	Level set for reporting errors or omissions to TCWG.
Materiality for Senior Officer Remuneration	12	Public sensitivity in the pay of senior officers in the public sector.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid-19

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

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

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

### Improper revenue recognition

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

## Auditor commentary

We:

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

### Findings

We recommended that the Council enhance its disclosure around going concern and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.

The Covid-19 pandemic resulted in land and building and investment property valuations being reported on a 'material uncertainty' basis. As explained on page 8, this is a national issue related to the Covid-19 pandemic and the Council followed national guidance from RICS in its valuations.

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

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

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

# Significant audit risks continued

## Risks identified in our Audit Plan

## Auditor commentary

### Management override of controls

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

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

We:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk and unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

### Findings

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

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

### Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£48.5m) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- considered the impact of Covid-19; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular, reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the update of member data as part of the 2019 triennial actuarial valuation.

### Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

# Significant audit risks continued

## Risks identified in our Audit Plan

### Valuation of land and buildings

The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. Investment properties are valued annually. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£65.9m for other land and buildings, £19.2m for investment properties) and the sensitivity of the estimate to changes in key assumptions.

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

We identified the valuation of land and buildings and investment properties as a significant risk.

## Auditor commentary

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation experts;
- discussed with and wrote to the valuers to confirm the basis on which the valuations were carried out;
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding;
- 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 management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

### Findings

Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the land and buildings and investment property valuations to the balance sheet and the caveat made by the valuers in their valuation reports, we will highlight the material uncertainty in our audit report in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosures made in the statement of accounts in Note 1.

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

We are concluding our review of the accounting treatment of the valuations and await management's updated version of the financial statements to review an audit adjustment in respect of an asset that was under construction at the beginning of the financial year. This is an accounting adjustment and will not impact upon the Council's General Fund.

## Other audit risks

### Risks identified in our Audit Plan

#### **IFRS 16 implementation has been delayed by one year**

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

### Auditor commentary

In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate.

# Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
<b>Land and Buildings - £65.9m</b>	<p>The Council used its internal valuer to complete the valuation of properties as at 31 December 2019 on a five yearly cyclical basis. 22%, by value, of total assets were revalued during 2019/20. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2019 and those valued in earlier years, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management’s assessment of assets not revalued has identified no material change to the properties’ value.</p> <p>In line with nationally issued RICS guidance, the Council’s valuer disclosed a material uncertainty in the valuation of the Council’s land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates disclosure in the Statement of Accounts.</p>	<p>We have assessed the Council’s valuer to be competent, capable and objective.</p> <p>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings.</p> <p>We confirm consistency of the estimate against the expectation derived by the audit team through the use of our auditor expert, Gerald Eve, and concluded that them movements and potential movements for non-valued assets were reasonable with no material issues arising.</p> <p>We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate.</p> <p>We have agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p>	 <b>GREEN</b>

**Assessment**

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

# Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
<b>Investment properties - £19.2m</b>	<p>The Council used a specialist valuer to complete the valuation of properties as at 31 March 2020. The Council made one purchase in 2020 of £5m and the valuation of investment properties has resulted in a net decrease in value of £10k.</p> <p>Guidance from RICS in its valuation of land, buildings and investment properties instructs valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19.</p>	<p>We have assessed the Council’s valuer to be competent, capable and objective.</p> <p>We reviewed the valuations performed by the valuer, with reference to the comparative properties and information used by the valuer in undertaking their valuations, and considered these to be appropriate.</p> <p>The valuation methodology applied remains consistent with the prior year.</p> <p>We agreed the valuation report to the Fixed Asset Register and to the Statement of Accounts.</p> <p>The Council did not include the disclosures on this issue within its Key Judgements and Material Estimates disclosure in the draft Statement of Accounts. The Council will update this in the final version of the accounts and we will refer to this in an Emphasis of Matter paragraph in our audit report.</p> <p>Our proposed audit opinion includes an Emphasis of Matter paragraph to draw attention to the disclosure on the material uncertainty in respect of valuations, which is a national issue.</p>	 <b>GREEN</b>

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																											
<b>Net pension liability – £48.5m</b>	<p>The Council's net pension liability at 31 March 2020 is £48.5m (PY £48.6m). The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.4m net actuarial gain during 2019/20.</p>	<p>We have assessed the Council's actuary, Barnett Waddingham LLP, to be competent, capable and objective.</p> <p>We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.</p> <p>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:</p>	<p>In progress</p>																											
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td> GREEN</td> </tr> <tr> <td>Inflation (RPI/CPI)</td> <td>2.7% 1.9%</td> <td>2.65%-2.8% 1.85%-1.95%</td> <td> GREEN</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>Between 1.85%-1.95%</td> <td> GREEN</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>Between 2.85%-2.95%</td> <td> GREEN</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>Pensioners: 22.9 years Non-pensioners: 24.3 years</td> <td>21.4 – 23.2 22.8 – 24.7</td> <td rowspan="2"> GREEN</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>Pensioners: 24.1 years Non-pensioners: 25.5 years</td> <td>23.7 – 24.7 25.2 – 26.2.</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	GREEN	Inflation (RPI/CPI)	2.7% 1.9%	2.65%-2.8% 1.85%-1.95%	GREEN	Pension increase rate	1.9%	Between 1.85%-1.95%	GREEN	Salary growth	2.9%	Between 2.85%-2.95%	GREEN	Life expectancy – Males currently aged 45 / 65	Pensioners: 22.9 years Non-pensioners: 24.3 years	21.4 – 23.2 22.8 – 24.7	GREEN	Life expectancy – Females currently aged 45 / 65	Pensioners: 24.1 years Non-pensioners: 25.5 years	23.7 – 24.7 25.2 – 26.2.	
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# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Provision for NDR appeals</b>	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculates the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. In 2019/20 the provision is £1.6m, an increase of £0.2m from the prior year.	The draft Statement of Accounts includes an accounting policy for the NDR appeals provision. The disclosure of the NDR appeals provision within the financial statements is adequate. Our review of the calculation of the provision is ongoing.	<b>In progress</b>
<b>Provision for bad debts</b>	The Council makes a provision every year for the impairment of doubtful debts for Council Tax, Business Rates, Housing Benefit and Sundry Debt. The Council adopts a calculation methodology based upon past experience and the age of debts to make an allowance for non-collectable amounts of the reported debts. Management have reviewed the amounts collected in year against the provision at 31 March 2019. This review indicates that the Council's provision may be over-prudent. In 2019/20 management included an additional 10% allowance for bad debts given the Covid-19 pandemic and the impact that this may have on revenue collection.	We have reviewed the Council's methodology and recalculated the provision. We consider that the Council's methodology is appropriate, whilst noting that it is potentially over-prudent in some cases. The methodology applied is consistent and we consider that the estimated provision for bad debts, including the additional values provided as a result of Covid-19, are reasonable.	 <b>GREEN</b>
<b>Shared services recharges</b>	<b>Allocation of shared costs</b> The Council operates on a shared service basis with West Devon District Council. Consequently, there are a number of costs borne by each Council that are reallocated as part of process to allocate costs equitably between the two Councils.	We have: <ul style="list-style-type: none"> <li>• reviewed the basis of allocation to ensure that it is reasonable and appropriate;</li> <li>• considered any changes from the prior year basis; and</li> <li>• tested the calculation of transferred costs.</li> </ul> Our work has not identified any issues with the allocation of shared costs.	 <b>GREEN</b>

# Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
<p><b>Pension Liability</b></p> <p>Experience gains included in the change in actuarial valuations</p>	<p>The recorded gain arising from the actuary's use of roll forward annually gave a loss of £3.9m over the three years since the last triennial full valuation.</p> <p>The explanation for this was provided by the actuary</p> <ul style="list-style-type: none"> <li>• £1.9m due to higher salary increases than were assumed for each year's roll forward.</li> <li>• £1.3m due to a couple of significant transfer values into the Fund over the inter-valuation period which were not allowed for as part of the roll forward approach.</li> <li>• £0.2m due to unreduced early retirements for four members on 1 April 2016.</li> <li>• £0.5m changes in other assumptions.</li> </ul> <p>On 1 April 2019 the Council made a TUPE transfer to FCC Environment as part of the procurement of the Council's waste contract. This transferred the pension liability for circa 80 staff on a fully-funded basis. We considered the accounting treatment of this transfer and are satisfied that it has been appropriately included in the calculations.</p>	<p>We are satisfied that the actuary's approach is appropriate to make a reasonable estimate of the liability each year. Our auditor expert has assessed the use of the roll forward methodology can produce an error of up to 3% each year, it should be noted that this could be under or overstatement, so may not necessarily be cumulative.</p> <p>3% of the current liability would be £1.4m. We have undertaken additional procedures that give us assurance that the actuary's approach remains a reasonable basis for making the estimate, including if the explanation provided by the actuary for the experience adjustments was in line with our expectations. We can confirm that the response from the actuary provides us with sufficient evidence and assurance over the experience items.</p> <p>Our work on the pension liability is still to be finalised.</p> <p>Management will need to review future actuarial valuations and satisfy themselves that the actuary's valuation is reasonable in the context of the liability.</p> <p><b>Management response</b></p> <p>The Council will ask for further analysis (a breakdown) of future actuarial valuations and this will be raised by the s151 Officer at the next meeting of the Devon s151's Officers meeting.</p>
<p><b>Bank reconciliation</b></p>	<p>The bank reconciliation is unbalanced by a £1k, this results from an historic error arising from a change in software systems that should have been written off in previous years.</p>	<p>Management have reviewed the reconciliation and confirmed that the difference relates back a number of years and have provided an analysis that supports this. The amount needs to be written off to ensure that future reconciliations are accurate.</p> <p><b>Management response</b></p> <p>The Council will write off the historic reconciling item and the presentation of the bank reconciliation will be enhanced for the reconciliation between the balance on the bank statement at 31.3.2020 and the balance on the General Ledger at 31.3.2020.</p>

# Significant findings – going concern

## Our responsibility

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

## Going concern commentary

### Management's assessment process

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

## Auditor commentary

We have subjected the 2020/21 budget, Medium Term Financial Strategy to 2024/25 and cash flow forecast to March 2022 to detailed scrutiny and reviewed the planned budget proposals for 2020/21 in our consideration of the appropriateness of management's use of the going concern assumption.

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

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

In 2020/21 the Council expects to achieve a balanced budget and the Council's usable reserves at 31 March 2020 stood at £16m. This represents 32% of the annual gross cost of services.

The Council had £35.5m of cash and investments which represents over 23 months of net cost of services. The Council therefore has access to cash to meet it's bills. It also has sufficient borrowing headroom within it's borrowing limit as set out in it's Treasury Management Strategy.

The Covid-19 pandemic has resulted in a reduction of income in 2020/21, some of which has been covered through government support. This shows an overall projected overspend of £2.6m (27.5% of the total Budget of £9.4m for 2020/21). This position is after taking into account the £0.9m Government Grant that the Council has received for Covid-19, and the Council has reported a number of actions it can take to address the position.

### Conclusion

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

## Other matters for communication

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

Issue	Auditor commentary
<b>Matters in relation to fraud</b>	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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Council, which is included in the Committee papers.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the Council's banking and investment institutions. This permission was granted and the requests were sent. We are still awaiting a response from Lloyds, all other requests were returned with positive confirmation.
<b>Disclosures</b>	Further information on disclosure changes arising from our audit can be found in Appendix C.
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management have been provided, with the exception of the final outstanding items listed on page 3.

## Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially consistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; and</li> <li>• if we have applied any of our statutory powers or duties.</li> </ul> <p>We have identified some best practice improves to the Annual Governance Statement in Appendix A but have concluded that it meets the disclosure requirements and is not misleading or inconsistent with other information.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the audit threshold set by the NAO.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of South Hams District Council in the audit report, as detailed in Appendix E.</p>

# Value for Money

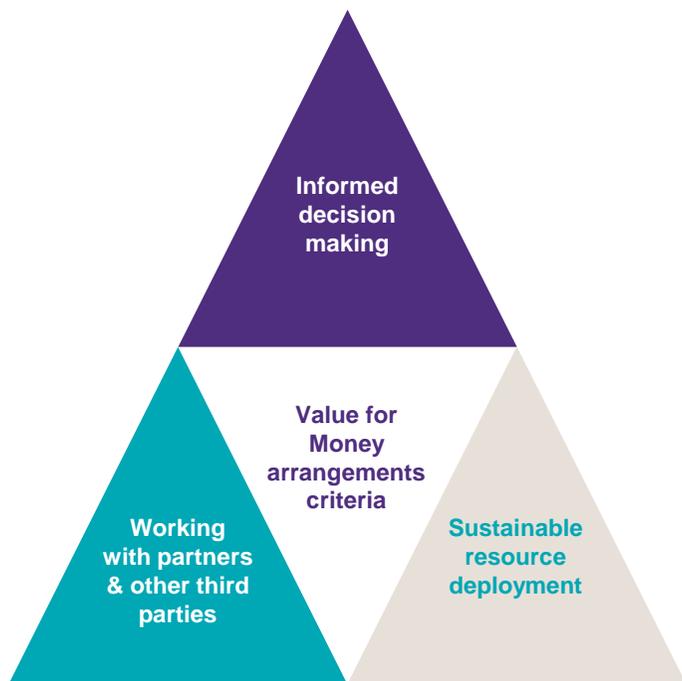
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in March 2020 and identified one significant risk in relation to the Council's financial outturn and sustainability using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 24 March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

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

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

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management. We recommend that the Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

# Value for Money (continued)

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

## Financial outturn and sustainability

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### The risk as identified in our 2019/20 Audit Plan

The Council has set a balanced budget in 2020/21 and is currently forecasting a £0.6m budget gap for 2021/22. The aggregated budget gap by 2024/25 is £1.1m.

To balance the budget for 2020/21 the Council have identified £0.9m of savings that will need to be achieved, these include savings of £0.3m from re-procurement of contracts and the letting of the waste contract, and £0.2m from the elimination of the secondary pension contributions. The Council reported in Quarter 3 that it anticipated an underspend of £27k for the year.

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## Findings

The Council commenced its financial planning for 2019/20 in September 2018, this comprised:

- updating the forecast financial position for 31 March 2019;
- compiling the projected budget for 2019/20;
- further projecting and updating the medium term financial plan up to 31 March 2025; and
- setting out proposals and options to address the forecast financial shortfall.

The initial forecast set out a the forecast budget gap of £0.6m for 2019/20, and a further budget gap of £0.9m in 2020/21 giving a budget gap over the two years in the region of £1.5m. For the duration of the five year medium term financial strategy (MTFS) there is a cumulative gap of £7.4m. The initial report included a list of 10 options which could be taken to close the gap, and these included the use of reserves, lobbying government for NDR pilot status, use of the new homes bonus and exploring options to reduce the annual pension deficit contribution.

In February 2019, following member workshops and Committee debates, a balanced budget was set for 2019/20 and the cumulative funding gap over the life of the 5 year MTFS reduced from £7.4m to £1.6m, following realisation of the actions outlined in the original plan.

The Council monitors its budget quarterly, and reports to the Executive the current position, forecast year end position and updates the MTFS for known events. In September 2019 management started to report the plans to set the 2020/21 budget and five year MTFS to March 2025. At this point the forecasted budget gap was £0.5m for 2020/21 with a predicted gap of £0.4m in 2021/22, assuming the budget gap in 2020/21 had not been closed. The aggregated budget gap was forecast to be £2.4m over the five years if no action were taken.

In February 2020 the Council set a balanced budget for 2020/21 and forecast a £0.6m budget gap by the following year, 2021/22. The aggregated budget gap was forecast at £3.2m to 2024/25. The Council did have a number of options to close the gap such as the use of New Homes Bonus and reserves and additional Business Rates Pooling Gains.

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# Value for Money (continued)

## Financial outturn and sustainability

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### Findings (continued)

The 2019/20 outturn shows an under spend on the General Fund of £0.1m against a net budget of £8.8m and total General Fund Reserves now stand at £16m. The main variations from the revenue budget were:

- £0.3m - additional planning income
- £0.2m - additional Treasury Management investment income
- £0.1m - Business Rates Pooling Gain
- offset by a £0.1m shortfall in Housing Benefit overpayment recoveries and £0.2m additional costs for the haulage and processing of waste and recyclable materials.

Following the latest triennial actuarial valuation the Council achieved the savings it planned in respect of contributions.

The Covid-19 crisis has resulted in extra cost pressures and the Council's income from fees and charges was substantially reduced. Longer term there could be an impact on council tax and business rates income and collection.

As a result of Covid-19 the Council now reports its financial position monthly. The Council's first Budget Monitoring Report (Month 1) for 2020/21 showed an overall projected overspend of £2.6m (27.5% of the total budget of £9.4m for 2020/21). However, subsequent government support and the gradual re-opening of services mitigated that position to some extent. In September 2020 the Council was projecting a shortfall of £1.3m for 2020/21. Management set out a series of mitigations, including a review of the capital programme, further discussions around discretionary service provision and additional use of reserves. The Council agreed a number of mitigating actions to close the gap for 2020/21, which includes releasing earmarked reserves and using additional government grants. These measures should close the forecast gap for 2020/21, however they are by their nature one-off. There is a risk that one-off measures will not be available in future years and recurrent measures should be identified.

In September 2020, following member workshops, the process to develop a recovery plan had started. A draft action plan is based on all of the outputs of the workshops and will need to be a rationalised whereby the proposals are prioritised in terms of impact and cost.

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### Auditor view

As the reserves position at 31 March 2020 shows, South Hams District Council has robust procedures to set, monitor and deliver its financial plans and the Council has accumulated a good level of reserves to meet those plans. However, the future financial plans do set out a number of financial challenges that could adversely impact on the Council's ability to continue to deliver services or to maintain financial stability.

The Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services and should ensure that it continues to take any difficult decisions on the delivery of services and savings in the future.

**We propose to issue an unqualified Value for Money Conclusion for 2019/20.**

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# 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.

	<b>Fees £</b>	<b>Threats identified</b>	<b>Safeguards</b>
<b>Audit related</b>			
Certification of Housing Benefits Subsidy return	£6,250*	Self-interest, self-review, management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,250 in comparison to the total fee for the audit of £40,271 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. We do not prepare the return, and do not expect material changes to arise from the work that would affect information in the financial system. We report factually, based on the instructions and any decisions on amendments to returns are for the Council to make, in discussion with the relevant government body. These factors all mitigate the perceived self-interest, self-review and management threats to acceptable levels.

\* proposed fee, our work has yet to begin on the Councils Housing Benefits Subsidy return for 2019/20.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Councils S151 Officer. None of the services provided are subject to contingent fees.

# Action plan

We have identified two recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p><b>Value for Money</b></p> <p>Overall, as the reserves position shows that South Hams District Council has robust procedures to set, monitor and deliver its financial plans. The Council has a good level of reserves to meet those plans. However, the plans do set out a number of financial challenges that could adversely impact on the Council's ability to continue to deliver services or to maintain financial stability.</p>	<p>The Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services.</p> <p><b>Management response</b></p> <p>The Council has set an Amended Budget for 2020-21 to address the predicted £1.3m shortfall. In October, the Executive Committee will consider the Council's Medium Term Financial Strategy (MTFS) and the Council awaits an announcement from the Government on the future Comprehensive Spending Review, which will enable the Council to see if its assumptions in the MTFS hold true. Draft proposals for a draft budget for 2021-22 will be considered by the Executive on 3rd December 2020.</p>
 Low	<p><b>Annual Governance Statement</b></p> <p>We note that the Annual Governance Statement makes no reference to:</p> <ul style="list-style-type: none"> <li>governance arrangements within partnerships and joint working</li> <li>the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014);</li> <li>GDPR; or</li> <li>IT systems and controls.</li> </ul>	<p>The Council's reporting of its governance arrangements would be enhanced if these areas were given prominence in the Annual Governance statement.</p> <p><b>Management response</b></p> <p>This is noted. The final Annual Governance Statement presented to the Audit Committee in October 2020 contains the extra disclosure for partnerships, the Code of Practice, GDPR and IT systems and controls.</p>

# Action plan

Assessment	Issue and risk	Recommendations
 High	<p><b>Journals</b></p> <p>Management have a review process whereby journals over £25k are reviewed by a second individual, a Finance Business Partner. Our review of the Council's journals and the reports used to identify those journals which require review identified the journal date selection criteria set up for the generation of the monthly review reports resulted in certain journals over £25k being omitted from the report and hence being unreviewed in months 1-3. Journals represent a risk of management override of controls and sufficient controls should be in place in order to identify fraud or error.</p>	<p>The Council should ensure that the reports used to highlight journals for review identify all journals over £25k. Management and Those Charged With Governance should also note the risk of unreviewed journals below £25k.</p> <p><b>Management response</b></p> <p>The original journals over £25k report was a period specific report which resulted in a small number of new year journals from months 1-3 being omitted from the report. We have now re-written the report to pick up all manual journals over £25k to eradicate this issue. The report will be run monthly but will cumulatively report journals from the start of the year. This report has been re-run retrospectively for 2019/20 and all journals over £25k have been reviewed.</p>
 Medium	<p><b>Debtors and Creditors</b></p> <p>The Council's income and expenditure sub-systems (e.g. car parking fines system, Salcombe harbour balances) operate in real-time, in that they give a point in time position of balances. For audit purposes it proved difficult to recreate the year-end balances for our testing purposes.</p>	<p>The Council needs to retain the details of debtors and creditors outstanding at the year-end to provide a trail that demonstrates who owes the Council and how collectible that might be, and what creditors were outstanding at year end.</p> <p><b>Management response</b></p> <p>This related to only a few feeder systems such as the car parks fines system (not the main Debtors and Creditors system). The Council will include within its workplan for next year a note to ensure that an extract of this system is taken at the year end date (31 March) to show a breakdown of all outstanding car parking fines at 31st March.</p>
 Medium	<p><b>Bank reconciliation</b></p> <p>The bank reconciliation is unbalanced by £1k, this results from an historic reconciling item arising from a change in software systems That should have been written off in previous years.</p>	<p>The Council should ensure that the historical amount is written off and that future bank reconciliations can be fully reconciled.</p> <p><b>Management response</b></p> <p>The Council will write off the historic reconciling item and the presentation of the bank reconciliation will be enhanced for the reconciliation between the balance on the bank statement at 31.3.2020 and the balance on the General Ledger at 31.3.2020.</p>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of South Hams District Council's 2018/19 financial statements, which resulted in 3 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>IT General Controls</b></p> <p>IT General Controls have been reviewed. There are a number of identified weaknesses that have been the subject of a separate report.</p>	<p>The Council's management team have followed the issues raised, There are some responses that are in progress, however we are satisfied that the Council has addressed the control issues.</p>
✓	<p><b>Commercialisation</b></p> <p>We recommend that management continue to monitor emerging guidance from CIPFA and central government on the acquisition of investment properties and related borrowing. In particular, management and members will need to closely scrutinise levels of borrowing related to investment property purchases and ensure that due diligence, legal, financial and other appropriate advice is sought, proportionality is considered prior to further purchases. Specific legal and due diligence will need to take place for each investment property purchased out of area and the concept of proportionality always adhered to.</p>	<p>There were no further Commercial acquisitions in 2019/20.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
There were no adjusted misstatements			

## Misclassification and disclosure changes

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

Disclosure	Detail	Auditor recommendations	Adjusted?
<b>Minor disclosure improvements</b>	Various minor amendments to improve the presentation of the draft accounts.	To correct the presentation points identified	<b>Yes</b>
<b>Significant estimates</b>	Whilst bad debt provisions are material, there is no significant risk of material misstatement in future periods as a result estimation uncertainty and therefore should not be disclosed in this Note.	Remove the disclosure	<b>Yes</b>
<b>Accounting policies</b>	d) Material items sets materiality as £300k. The Comprehensive Income and Expenditure Statement (CIES) discloses amounts below this.	Line in the CIES should be removed	<b>No</b>
	k) & o) The Council has policies for Heritage Assets and Jointly Controlled Operations, but has no items to disclose.	Policies should be removed	<b>No</b>
	q) The Council's depreciation policy, and namely the typical useful lives disclosures, does not reflect the lives used in practice and should be updated. Also the policy should note that depreciation is provided on additions in the year following purchase and full depreciation is provided in the year of disposal.	The depreciation policy be updated to reflect the Council's current practice	<b>Yes</b>
<b>Critical judgements</b>	Shared services – the disclosure did not set out the nature of the judgement, the impact on the accounts or how the Council arrived at the judgement.	Update the disclosure	<b>Yes</b>
	Pension fund asset valuations is not a judgement, rather an estimate and already included in Note 1.	Remove the pension reference from the Critical Judgement note	<b>Yes</b>
	The material uncertainty disclosed for Land & Buildings in Note 1 should also be included for Investment Property. This disclosure should also be made in respect of the valuation of Investment Property held by the Devon Pension Fund on behalf of South Hams District Council.	Update the disclosure	<b>Yes</b>

# Audit adjustments

## Misclassification and disclosure changes (continued)

Disclosure	Detail	Auditor recommendations	Adjusted?
<b>Going Concern</b>	The Council makes little reference to going concern and the impact of the Covid-19 pandemic.	Enhance disclosure around going concern and the impact of, and response to, the economic difficulties created by the Covid-19 pandemic.	<b>Yes</b>
<b>PPE Note</b>	The draft financial statements showed a revaluation adjustment of £5.6m under the 'Assets Under Construction' heading. The correct accounting treatment would have been to reclassify the works to 'Land and Buildings' and then revalue the asset taking into account the additional works.	<p>The Council should update the accounting treatment so that the revaluation is undertaken following reclassification of the works to land and buildings.</p> <p>This may also have an impact on the Council's Comprehensive Income and Expenditure Statement, dependent upon the value of any Revaluation Reserve balance in respect of the asset. As a capital entry, any changes will have no impact on the Council's General Fund.</p>	<b>TBC</b>

# Audit Adjustments

## Impact of unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
<p>1 <b>CCLA Investment</b> In the Statement of Accounts, the investment of £3.2m is designated as Fair Value through Other Comprehensive Income (FVOCI).</p> <p>The terms of the agreement allow redemption on demand and in our view the investment does not therefore meet the designation criteria to be held as FVOCI under IFRS 9.</p> <p>In our view the investment should be classified as Fair Value Through Profit and Loss. The cumulative write down of value of £0.4m has been incorrectly charged to Other Comprehensive Income rather than the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. As noted in the Council's accounts, there is a temporary Statutory Override in place that allows Fair Value movements to be reversed to an unusable reserve so there would continue to be no impact on the General Fund of this reclassification.</p>	<p>(In year) Cr Other Comprehensive Income and Expenditure £338k</p> <p>(Cumulative) Cr Other Comprehensive Income and Expenditure £361k</p>		<p>(In year) Dr (Surplus) or Deficit on Provision of Services £338k</p> <p>(Cumulative) Dr (Surplus) or Deficit on Provision of Services £361k</p>

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£40,271	TBC

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>
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<b>Audit Related Services</b>	
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<b>Grants:</b>	
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Housing Benefit Subsidy return	£6,250
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# Audit opinion

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

## DRAFT Independent auditor's report to the members of South Hams District Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of South Hams District Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund for the year ended 31 March 2020 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 2019/20.

In our opinion, the financial statements:

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

#### Basis for opinion

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

#### The impact of macro-economic uncertainties on our audit

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

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

#### Conclusions relating to going concern

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

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

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

# Audit opinion

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

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

We draw attention to Note 1 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and investment properties as at 31 March 2020. As disclosed in Note 1 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in the both Authority's land and buildings valuer's report and the investment property valuer's report. Our opinion is not modified in respect of this matter.

## Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

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

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements

As explained more fully 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 Corporate Director of Strategic Finance (Section 151 Officer). The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Strategic Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

# Audit opinion

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

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

### Conclusion

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

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

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

## Report on other legal and regulatory requirements - Certificate

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

### Use of our report

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

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

Bristol

[Date]



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