

# The Audit Findings for South Hams District Council

**Year ended 31 March 2021**

October 2021



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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 and are presented to the Audit Committee.

## Jackson Murray

Name : Jackson Murray

For Grant Thornton UK LLP

Date : October 2021

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# 1. Headlines

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

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## Financial Statements

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

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

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

Our audit work was undertaken remotely from July 2021. Our findings are summarised on pages 5 to 17. Audit adjustments are detailed in Appendix C. We have also raised a recommendation for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, subject to the satisfactory completion of the following outstanding matters;

- receipt and review of the assurances provided by the Devon Pension Fund auditor; and
- satisfactory completion of internal quality reviews and any subsequent questions.

Once completed, we will be in a position to issue our audit opinion following:

- receipt of the signed management representation letter; and
- review of the final set of signed financial statements.

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

Our anticipated audit report opinion will be unmodified.

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# 1. Headlines

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## Value for Money (VFM) arrangements

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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 completed our VFM work, which is summarised on page 19, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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## Statutory duties

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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.

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# 2. Financial Statements

## Overview of the scope of our audit

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

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

## Audit approach

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

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

## Conclusion

Subject to the outstanding queries on page 3 being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 28 October 2021, as detailed in Appendix E.

### Acknowledgements

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

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements including remote accessing financial systems, video calling, and additional procedures to verify the completeness and accuracy of information provided remotely.

In addition to the extended time that this has placed on the audit, increased regulatory expectations and focus have meant that both teams have spent significant amounts of time completing the audit for the 2020/21 financial year.

## 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.

Materiality levels remain the same as reported in our audit dated May 2021.

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

### Amount Qualitative factors considered

	Amount	Qualitative factors considered
Materiality for the financial statements	£905,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year and monitors spend against this, therefore gross expenditure was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 2% was an appropriate rate to apply to the expenditure benchmark.
Performance materiality	£678,000	The Council does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	£45,000	Calculated as a percentage of headline materiality and in accordance with auditing standards.
Materiality for senior officer remuneration disclosures	£20,000	The public sensitivity surrounding the disclosure of senior officer pay.

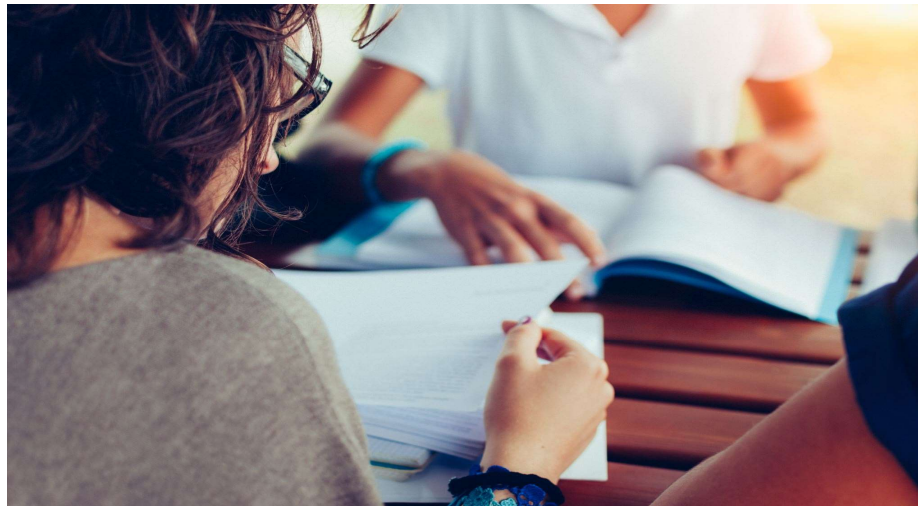


## 2. Financial Statements - Significant risks

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><b>Management over-ride of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and</li> <li>• confirmed that there were no changes to accounting policies, estimation techniques or significant, unusual transactions.</li> </ul> <p>Our review of the controls related to journal postings identified that whilst journals over £25k are subject to retrospective review, the individuals undertaking the review could do this on journals that they had posted. We have raised a control recommendation in Appendix B. Despite this, our sample testing of journals did not identify any significant issues that we need to bring to your attention.</p> <p>Disclosure updates were made in respect of accounting estimates and critical judgements. No issues were identified in respect of these and further information of estimates in respect of land and building valuations, investment property valuations and the valuation of the net defined benefit pension liability can be found later in this report.</p>



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### The revenue cycle includes fraudulent transactions (rebutted)

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

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

In our Audit Plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we had determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable.

Therefore, we did not consider this to be a significant risk for South Hams District Council.

We have not identified any reasons for this conclusion to be changed. We set out on page 10 our consideration of the significant grant income that the Council received in year in respect of Covid-19.

#### Valuation of land and buildings including Investment Properties

The Council revalues its land and buildings on a rolling five-yearly basis at 31 December each year, with Investment Properties valued annually on 31 March. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£65.7m for land and buildings and £19.2m for investment properties at 31 March 2020) and the sensitivity of this estimates to changes in key assumptions.

Additionally, management will need to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date given a rolling programme is used.

We therefore identified valuation of land and buildings and Investment Properties as a significant risk.

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 the valuers 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;
- reviewed the Council's valuers' reports and a sample of the assumptions that underpin the valuations to ensure that they appear to be reasonable;
- tested a sample 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 or prior to year end and how management has satisfied themselves that these are not materially different to current value at year end.

A detailed assessment of the estimation process, including estimation techniques and assumptions, is described on page 11 of this report.

Our audit work identified that for one of the Council's assets, capital additions in year had been doubled counted. This resulted in Property, Plant and Equipment and the Revaluation Reserve in the Balance Sheet both being overstated by £1.2m. More detail can be found on page 25.



# 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 (£48.5m in the Council's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.

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

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

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

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated, and evaluate 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; 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 performing any additional procedures suggested within the report.

We currently await receipt of assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership, contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Further detail on the valuation process, inputs and assumptions can be found on page 13.

## 2. Financial Statements – other areas

This section provides commentary on other areas of audit work undertaken during the year.

Issue	Commentary	Auditor view
<p><b>IFRS 16 implementation</b></p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected 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.</p>	<p>Disclosures were included in Note 39 of the draft financial statements that noted the deferral of IFRS 16.</p> <p>A minor update was made to the Note to make it clear that it is currently too early to determine the impact that IFRS 16 will have on the financial statements.</p>	<p>We consider that the updated disclosure is appropriate.</p>
<p><b>Recognition and Presentation of Grant Income</b></p> <p>The Council received a number of new grants and contributions in year as a result of the Covid-19 pandemic and is required to follow the accounting requirements set out in sections 2.3 and 2.6 of the CIPFA Code.</p> <p>The main considerations are to determine whether the Council is acting as principal or an agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p>	<p>The Council undertook detailed reviews of each of the grants received in year in order to determine the appropriate accounting treatment. Significant sums of money were paid out to local organisations in the form of Business Grants, and the Council was required to assess whether these monies should be reflected in the Comprehensive Income and Expenditure Statement (where acting as principal) or whether the year end position should be reflected within the Balance Sheet (where acting as agent).</p>	<p>We undertook separate sample testing of the Council's Covid-19 grant income that was received in year.</p> <p>Our testing confirmed that the Council had treated Covid-19 grants appropriately.</p>

## 2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £66.6m	<p>Other land and buildings comprises £22.2m of specialised assets, such as leisure centres, 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 (£44.3m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its internal valuation experts to complete the valuation of properties as at 31/12/2020 on a five yearly cyclical basis, with individually significant assets valued annually. 72% of total assets were revalued during 2020/21.</p> <p>Management place reliance on the work of the valuation experts and review and challenge the work of the valuer when it is reported back to them. The valuation experts are independent from the finance team which ensures that they maintain objectivity when undertaking their valuations.</p> <p>The majority of assets valued in year related to car parks. Car parks are valued using a three year average of the income that has been generated by the relevant site, with a yield applied as part of the calculation in order to determine an appropriate valuation. This approach is a standard valuation methodology for this type of asset. The valuer considers yields adopted by other Local Authorities when undertaking this work to ensure that their assumptions remain appropriate.</p> <p>Individually significant assets valued in year included leisure centres, and the valuer makes use of Sport England cost guidance when undertaking these valuations which provide the latest cost benchmarks to apply as part of the valuations. Again, this is a standard dataset that we would expect to see being used.</p>	<p>We assessed management's expert and found them to be competent, capable and objective.</p> <p>We corroborated the completeness and accuracy of underlying data used in the valuations, such as car park income, to source data.</p> <p>We challenged and corroborated key assumptions adopted within a sample of valuations, considering their relevance when compared to alternatives, including those used by close neighbours.</p> <p>We did not identify any significant changes in valuation method in year, nor did we identify any significant assumptions in respect of alternative site assumptions for DRC valuations.</p> <p>As part of our testing methodology we formed an expectation of value using information provided to auditors by Gerald Eve. This allowed us to test a sample of assets covering valuations that were in line with our expectations and those that lay outside of expectation. We also used this information to form an expectation of the value of assets not formally valued in year, and to project the valuation of those assets valued at 31 December 2020 to the Balance Sheet date (31 March 2021). We were satisfied that no material difference arose between our expected value and the carrying value recorded in the financial statements.</p> <p>Our work allowed us to conclude that the valuation of land and buildings was materially accurate. We also considered that the disclosures in the financial statements were appropriate.</p> <p>As previously noted, we identified that for the Ivybridge Depot asset, capital additions were factored into the 2020 valuation but were double counted as they were added on top of this valuation in the fixed asset register and draft statement of accounts. A reduction of £1.2m was made to correct for this error, with an updated land and buildings value at the Balance Sheet date of £66.6m.</p> <p>Our approach was undertaken with regard to the revised ISA540 requirements, and included deepened risk assessment and more detailed consideration of management bias in determining the estimate.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

## 2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – continued		<p>The draft financial statements included a disclosure that stated that the valuer had noted a material valuation uncertainty. Upon checking with the valuer and their report, we confirmed that this disclosure was not required for 2020/21. This was in line with the updated RICS guidance issued in year. Management removed the disclosures which had been added to the prior year financial statements and incorrectly rolled forward.</p>	
Investment Property valuations – £18.6m	<p>The Council holds two investment properties, which under the requirements of the CIPFA Code are required to be valued at fair value annually at the Balance Sheet date. The Council has engaged an external valuer to complete the valuation of properties at 31 March 2021, with both investment properties valued this year.</p> <p>Management place reliance on the work of the valuation experts and review and challenge the work of the valuer when it is reported back to them. As external valuers, this provides additional assurance to management over the valuations, and the valuation report includes details of comparable properties that have been considered as part of the valuation to provide direct evidence of market alternatives.</p> <p>As well as comparable sales evidence as referred above, the valuation methodology inputs include rental income and lease terms as well as relevant market yield assumptions.</p> <p>The total year end valuation of land and buildings was £18.6m, a net decrease of £0.6m from 2019/20 (£19.2m).</p>	<p>We assessed management's expert and found them to be competent, capable and objective.</p> <p>We corroborated the completeness and accuracy of underlying data used in the valuations, such as lease income and terms, to the source lease agreements.</p> <p>We challenged and corroborated the key yield assumptions adopted within the valuations, considering their relevance when compared to alternatives provided by the external valuer and other market comparables.</p> <p>We did not identify any significant changes in valuation method or assumptions in year.</p> <p>Our work allowed us to conclude that the valuation of investment properties was appropriate, as were the related disclosures in the financial statements.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

# 2. Financial Statements - key judgements and estimates

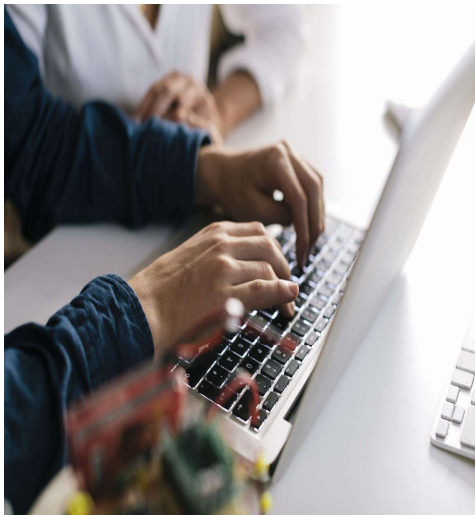
Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £61.4m	<p>The Council's net pension liability at 31 March 2021 is £61.4m (PY £48.5m) comprising the Devon Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 31/03/2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £10.5m net actuarial remeasurement during 2020/21.</p>	<p>With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuary are competent, capable and objective.</p> <p>We considered that the significant risk in respect of pension fund valuation related to the assumptions used in the calculation, rather than the methodology used with is standard and in accordance with the requirements of the CIPFA Code and accounting standards. We make use of the consulting actuary (PwC) to assess the reasonableness of the assumptions adopted and set out below our consideration of these assumptions.</p> <table border="1" data-bbox="954 675 1921 1050"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2%</td> <td>1.95-2.05%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.8%</td> <td>2.80-2.85%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.8%</td> <td>3.80-3.85%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.0 / 22.6</td> <td>21.9-24.4/20.5-23.1</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.4 / 23.9</td> <td>24.8-26.4/23.3-25.0</td> <td>●</td> </tr> </tbody> </table> <p>Our work includes procedures to ensure the completeness and accuracy of the underlying information used to determine the estimate. We review the data provided by the Council and the Pension Fund and corroborate this to supporting payroll data used elsewhere in our audit procedures. We also obtain assurances from the auditor of the Devon pension Fund over the processes and controls in place, and we currently awaiting these assurances.</p> <p>We did not identify any changes to valuation method and our audit procedures on the reasonableness of the Council's share of LGPS pension assets did not identify any issues. Through our procedures, we were satisfied that the estimate was reasonable and that the disclosures within the financial statements were adequate, subject to the satisfactory receipt of assurances from the Pension Fund auditor.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2%	1.95-2.05%	●	Pension increase rate	2.8%	2.80-2.85%	●	Salary growth	3.8%	3.80-3.85%	●	Life expectancy – Males currently aged 45 / 65	24.0 / 22.6	21.9-24.4/20.5-23.1	●	Life expectancy – Females currently aged 45 / 65	25.4 / 23.9	24.8-26.4/23.3-25.0	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2%	1.95-2.05%	●																								
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## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £1.6m	<p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management use an external organisation, LG Futures, to calculate the level of provision required for the 2017 appeals list after management make an initial estimate of 4.6% of net rates payable. The 4.6% is in line with the Government's assessment of provision when the list came in to effect. LG Futures then use their market intelligence and specific knowledge of appeals trends etc to update the provision value. For previous appeals lists (e.g. 2010) management use the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.</p>	<p>We considered that the methodology applied by management was appropriate, and in line with our expectations from review of this estimate at other Local Authorities.</p> <p>We did not identify any changes to the methodology from prior years.</p> <p>We considered that the estimate was reasonable and that the disclosure in the financial statements was appropriate.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Minimum Revenue Provision - £344k	<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. The Council calculate the MRP charge in accordance with the stated policy in the Treasury Management Strategy approved by members prior to the beginning of the financial year, using the asset life method as is allowed under the regulations.</p>	<p>We reperformed the MRP calculations to confirm that they were accurate, and also confirmed that they had been calculated in accordance with the Council's stated policy. No issues were noted.</p> <p>In considering the prudence of the MRP charge, we benchmarked the Council's MRP charge as a percentage of its Capital Financing Requirement. The 2020/21 MRP charge was rated as green as it was above 2% of the CFR at 2.65%.</p> <p>We also considered the level of debt held by the Council as a percentage of its Capital Financing Requirement. This could identify borrowing that was being used to support revenue spend, for example. Whilst the Council was rated red for this indicator, as its level of debt is higher than the underlying need to borrow per the Capital Financing Requirement, we were satisfied that the Council was not borrowing in order to support the revenue position. From discussion with management, we confirmed that the Council had taken out borrowing for capital investment early, upon the advice of its treasury advisors, given the favourable interest rates prevailing at the time. This borrowing is being used to fund the Dartmouth Health and Wellbeing Hub, with construction beginning in 2021/22. This construction and related capital spend will increase the Capital Financing Requirement in future years and hence should move the benchmark in line with expectations in the next year.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</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 and have not been made aware of any significant 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 included in the Audit Committee papers.
Confirmation requests from third parties	We requested permission from management to send confirmation requests to the Council's bank and treasury counterparties, including loans and investments. This permission was granted and the requests were sent. All of these 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. Disclosure adjustments identified throughout our audit are set out in Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided.  We note that it took a significant amount of time for management to provide us with a detailed transaction listing of all transactions recorded in the ledger in the financial year, and as a result our sampling in certain areas was delayed. Our experience at other Local Authorities is that this information is normally much easier to obtain, usually from standard system reports. Management had to undertake significant manual intervention to provide the listing to us, and whilst we undertook procedures to confirm that the listing was complete, this delayed the audit in some areas and also caused significant workloads for Council officers whilst also requiring additional audit procedures that we would not normally expect to have to undertake. We would recommend that the Council discuss this with their system provider and / or other Local Authorities using the same ledger software to identify a more efficient method of producing this information.

## 2. Financial Statements - other communication requirements



### Our responsibility

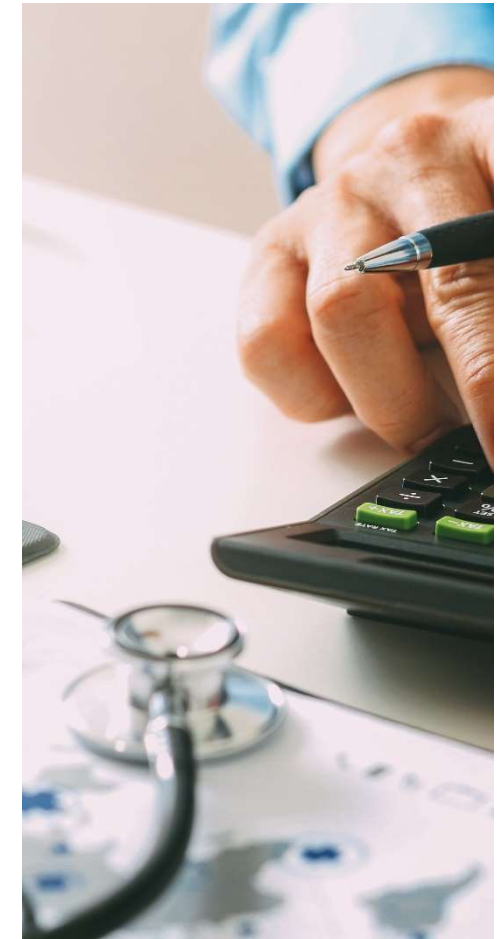
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>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; and</li> <li>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.</li> </ul> <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"> <li>the nature of the Council and the environment in which it operates;</li> <li>the Council's financial reporting framework;</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern; and</li> <li>management's going concern assessment.</li> </ul> <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"> <li>a material uncertainty related to going concern has not been identified; and</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.</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"> <li>• 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;</li> <li>• if we have applied any of our statutory powers or duties; and/or</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters following some minor disclosure updates made to the draft versions.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the National Audit Office (NAO)) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>The NAO has yet to issue this guidance or the Data Collection Tool to allow the Council to complete its return. It is not expected that this will be released until December 2021 at the earliest. As a result, we will hold the audit certificate until we are able to understand and complete the 2020/21 audit requirements in respect of WGA.</p>
Certification of the closure of the audit	<p>We cannot certify the closure of the 2020/21 audit of South Hams District Council in the audit report until we have completed our WGA work, as noted above. As such, we intend to hold the audit certificate until such time that the WGA work can be completed and reported to the NAO, as detailed in Appendix E.</p>



# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

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

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

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

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



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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

## Potential types of recommendations

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



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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

# 3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Assessing performance and identifying areas for improvement	<p>We:</p> <ul style="list-style-type: none"> <li>considered what strategic objectives were in place for 2020/21;</li> <li>assessed how the Council assessed performance against these;</li> <li>considered the formal and informal performance reporting undertaken during the year and provided to members, directors and the senior leadership team; and</li> <li>assessed what corrective action was undertaken to address under-performance.</li> </ul>	<p>Following our procedures, we concluded that no significant weakness arose as the Council reported performance on an ad-hoc basis to the Executive, maintained an overview of its operational performance through its Incident Management Team and held informal member briefings throughout the year. Whilst we recognise that the Council is in the process of developing a performance management framework which will be linked to its new corporate plan, we have issued an improvement recommendation to ensure arrangements continue to progress in 2021/22.</p>	<p><b>Improvement recommendation</b></p> <p>The Council should introduce a performance management framework based upon SMART strategic objectives to ensure delivery of its new corporate plan. This should include monitoring the performance of its strategic partnerships.</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.

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).

## 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	Proposed fee	Threats identified	Safeguards
Audit related			
Agreed Upon Procedures on the Council's Housing Benefit subsidy claim	£10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the proposed fee for this work is £10,000 in comparison to the total proposed fee for the audit of £54,271 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. 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

We have identified the following recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this 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><b>Medium</b></p>	<p>As noted earlier in our report, there is significant manual intervention required by management to system reports in order to produce transaction level reports that reconcile to the Trial Balance and accounts. Management have to manually adjust for reversing accruals due to the way that the system is configured.</p> <p>Whilst adding significant time to the audit process for both parties, this also introduces a risk that adjustments are not correctly actioned that could lead to omissions or errors.</p>	<p>We recommend that management review the system reporting capabilities to make the reversal process automatic and remove the need for manual intervention.</p> <p><b>Management response</b></p> <p>This is something we are very conscious of and the Head of Finance has identified it as a key piece of work before we close the 2021/22 Accounts. We are intending to approach Civica, our software provider as well as other Councils to see how they approach the running of these transactional listings.</p>

# B. Follow up of prior year recommendations

We identified the following issues in the audit of South Hams District Council's 2019/20 financial statements, which resulted in five recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<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>We recommended 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>Whilst the reports were updated and we did not identify any omitted journals, we did identify that a Finance Business Partner had reviewed a journal that they had posted, meaning that there was no segregation of duties in this control.</p> <p>We would recommend that management ensure that the individual undertaking the retrospective authorisation is not reviewing their own journal postings.</p> <p>Management and Those Charged With Governance should continue to note the risk of unreviewed journals below £25k.</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>We recommended that 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>The Council retained copies of year-end balances and reports to enable audit testing of these post year end.</p>

## Assessment

- ✓ Action completed
- x Not yet addressed

# B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<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>We recommended that the Council should ensure that the historical amount is written off and that future bank reconciliations can be fully reconciled.</p>	<p>Whilst our bank reconciliation could be fully reconciled, we noted that the historical reconciling item remained on the Council's year end bank reconciliation which dates from the implementation of the current cash receipting system.</p> <p>We have seen evidence that historical balances were written off in August 2021.</p>
✓	<p>We noted 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>We recommended that the Council's reporting of it's governance arrangements would be enhanced if these areas were given prominence in the Annual Governance statement.</p>	<p>The original draft AGS included updates in the areas mentioned, with the exception of reference to the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). The Council updated the AGS to include explicit reference in respect of this in the final version.</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>We recommended that the Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services.</p>	<p>See separate consideration of financial sustainability in the separate Auditor's Annual Report.</p>

We have previously noted IT audit findings and the latest confirmation from the Head of IT Practice confirms that implementation of these recommendations continues.

## Assessment

- ✓ Action completed
- X Not yet addressed



# C. Audit Adjustments

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

## Impact of adjusted misstatements

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

<b>Detail</b>	<b>Comprehensive Income and Expenditure Statement £'000</b>	<b>Statement of Financial Position £' 000</b>
In processing the valuation adjustments in 2020/21, due to the order in which the valuations were processed, additions in respect of the Ivybridge Depot were incorrectly double counted into the valuation. When our testing identified this, the Council reversed this entry and the corresponding increase that had originally gone to the Revaluation Reserve.	Dr Surplus on revaluation of Property, Plant and Equipment £1,229k	Cr Property, Plant and Equipment £1,229k Dr Revaluation Reserve £1,229k

# C. Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Adjusted?
Classification error identified in the Cash Flow Statement with £1,614k moved to 'Operating Activities' from 'Financing Activities'.	✓
Our review of the Council's financial instruments notes identified that the accumulated absences (staff leave) accrual had been included in 'creditors' as a financial instrument. As no future payment of this item will be made (the Council has already made the payment in the form of salary to the individual), this does not meet the definition of a financial instrument. £148k was therefore removed from the financial liabilities total.	✓
Note 16 was incorrectly stated due to an error in the underlying working paper. Total debtors for local taxation were stated as £928k, and were corrected to be £873k.	✓
Disclosures stating that a material valuation uncertainty was applied to the valuation of land and buildings and investment properties were removed as neither valuer included these in their valuation reports for 2020/21. The disclosures were erroneously included following the disclosures in 2019/20.	✓
A number of other minor disclosure related adjustments were made to improve the clarity of disclosures or to ensure their compliance with accounting standards or CIPFA Code requirements. None of these adjustments were significant enough on their own to warrant individual reporting.	✓

# C. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit 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
<p>As we have reported in previous years, the Council's investments with CCLA are designated as Fair Value through Other Comprehensive Income (FVOCI). 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. At 31 March 2021 the CCLA investments total £3.28m.</p> <p>In our view the investment should be classified as Fair Value Through Profit and Loss. The cumulative write down in value of £0.2m 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. There is currently 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 style="text-align: center;"><u>In year</u></p> <p>Dr Other Comprehensive Income and Expenditure £141k Cr (Surplus) or Deficit on Provision of Services £141k</p> <p style="text-align: center;"><u>Cumulative</u></p> <p>Cr Other Comprehensive Income and Expenditure £220k Dr (Surplus) or Deficit on Provision of Services £220k</p>	<p>No change to total usable or unusable reserves</p>

# D. Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit (excluding VAT)	£54,271	TBC

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services – Agreed upon procedures in respect of the Council’s Housing Benefit subsidy claim (excluding VAT)	£10,000	TBC*

\*work on the 2020/21 subsidy claim has yet to begin, the final fee will be confirmed to the Audit Committee following the completion of the work anticipated for early 2022.

# E. Audit opinion

Our draft audit opinion is included below.

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

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of South Hams District Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We are responsible for concluding on the appropriateness of the Corporate Director of Strategic Finance (Section 151 Officer) use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Corporate Director of Strategic Finance (Section 151 Officer) conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

In auditing the financial statements, we have concluded that the 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 appropriate.

The responsibilities of the Corporate Director of Strategic Finance (Section 151 Officer) with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements' section of this report.

# E. Audit opinion

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

As explained in the Statement of Responsibilities for the statement of accounts, 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 2020/21, 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.

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.

# E. Audit opinion

## 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.

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, 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 and the Audit Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-

non-compliance with laws and regulations.

- We enquired of senior officers 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'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:
  - journal entries posted during and post year-end; and
  - the significant accounting estimates in the financial statements, including those related to the valuation of property, plant and equipment, the net pensions liability and significant year-end accruals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Corporate Director of Strategic Finance (Section 151 Officer) has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual postings;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, investment property and the defined benefit pensions liability; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from 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, investment property and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

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- 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; and
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation;
  - guidance issued by CIPFA, LASAAC and SOLACE; and
  - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

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

We have nothing to report in respect of the above matter

### Responsibilities of the Authority

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

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

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

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

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

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 South Hams District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.



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

## Use of our report

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



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