The Audit Findings for South Hams District Council

Year ended 31 March 2023

19 March 2024

Contents

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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 the Audit and Governance Committee.

Jackson Murray

For Grant Thornton UK LLP

Date: March 2024

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 2023 for the attention of those charged with governance.

Financial Statements	
Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the 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 completed remotely from November to March 2023. Our findings are summarised on pages 5 to 19. We have identified two adjustment to the financial statements relating to information provided by the Council's external advisors. First, the Council's Local Government Pension Scheme IAS 19 valuation was updated by the external actuary that has resulted in a £2.4m adjustment to the Council's Comprehensive Income and Expenditure Statement and Balance Sheet. Second, the Council's external property valuer applied an incorrect build cost to a single asset, which resulted in a £0.3m increase in its valuation in the Balance Sheet with the additional gain accounted for through the Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C. Our work is substantially complete, subject to the following outstanding matters; • final senior quality review of audit file and resolution of any resultant queries. Once completed, we will be in a position to issue our audit opinions following; • receipt of signed management representation letters; and • receipt and review of the final sets 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 financial statements audit report opinion will be unmodified. We have been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are 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 21, and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit and Governance Committee in December 2023. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit. Working papers and responses were of a good quality and we would like to thank the finance team for their support throughout the audit.

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 and the Audit and Governance Committee.

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

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 28 March 2024, as detailed in Appendix G. These outstanding items are set out on page 3.

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 plan.

	Amount	Qualitative factors considered
Materiality for the financial statements	£1.14m	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	£0.86m	No historic material misstatements or significant deficiencies in the control environment, stable management structure and no significant change in the operation of the Council compared to prior years.
Trivial matters	£57k	Calculated as a percentage of headline materiality and in accordance with auditing standards.

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.

Risk identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent revenue transactions (ISA240)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of material fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition; • there are adequate controls in place to deter and identify material fraud; and • the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable. This remains unchanged from our planning considerations as reported through our Audit Plan.
Risk of fraud related to expenditure recognition (PAF Practice Note 10)	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. We have determined that the risk of material fraud arising from expenditure recognition can be rebutted because, per Practice note 10, misstatements may arise where the audited body is under pressure to meet externally set targets. This environment does not exist at the Council. This remains unchanged from our planning considerations as reported through our Audit Plan.

2. Financial Statements: Significant risks

Risk identified in our Audit Plan	Commentary
Management over-ride of controls	We: • evaluated the design and implementation of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We completed a reconciliation of journals by using a completeness tool, which gave us assurance that the data we were using was complete and accurate. The journals data provided has been agreed and reconciled back to the financial statements. We challenged management and sought further evidence for our sample of journals and have gained assurance over the business rationale of these entries and have concluded that the entries were reasonable and appropriate. Our testing of journal entries posted in the year did not identify any indication of management override of controls. We did not identify any significant changes in estimation techniques adopted between years (more information on our work on the Council's key estimates can be found on pages 12 to 15.
Valuation of Investment Properties	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 expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation. This included testing to rental or lease contracts to check the annual income for properties; • used an auditor's expert with knowledge of investment property valuations to consider the rental yield figures used in valuation calculations for appropriateness; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register. Management employs an external expert in order to undertake valuations of investment properties, which are all valued on an annual basis as at 31 March 2023. Management relies on the external valuer as an expert to undertake the valuations of the investment properties and where considered necessary, management will challenge the valuer as to what assumptions and source data have been used in the calculations. The review and challenge of the valuation is carried out by an internal asset manager who is also a chartered member of RICS and who has sufficient knowledge as to the investment property portfolio of the Council. Our audit work has not identified any issues in respect of valuation of investment property.

2. Financial Statements: Significant risks

Risk identified in our Audit Plan	Commentary
Valuation of land and buildings	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 expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by 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. Management have employed an external expert in 2022/23 in order to undertake the valuation of its land and buildings. The Council revalues its land and buildings on a five yearly basis to ensure that the carrying value of land and buildings in the Council's financial statements is not materially different from the fair value at year end. We evaluated the competence, capability and objectivity of the valuer and were satisfied that they are relevant experts and have sufficient knowledge and extensive experience of the valuation of the Council's assets through the various Local Authorities that they represent. We noted an error in the external valuer's calculation of one asset whereby an incorrect build rate had been used. This has resulted in the specific asset being understated by £0.3m and further details can be found in Appendix D. A recommendation has also been made in respect of a difference in the Revaluation Reserve between the Council's general ledger and a Fixed Asset Register report. We are satisfied that the financial statements and ledger are correct. We have raised this matter in Appendix B. See page 12 for details of our testing. Other than the points above, our audit work has not identified any issues in respect of valuation of land and buildings.

2. Financial Statements: Significant risks

Risk 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 (£5.49m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The key assumptions used in the calculation which we will consider are the assumed: • Discount rate • Pension Increase rate • Salary growth • Life expectancy Based on the issues above, we have identified valuation of the Council'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 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; • 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; and • obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We have reviewed the assumptions in the actuarial report and deemed that they are reasonable and within the expected range disclosed in the auditor's expert's report. We deemed that the information provided by the Council was accurate and complete. The draft financial statements included a pension asset of £162k. We challenged the actuary as to whether they had considered IFRIC 14 and as a response the actuary amended the year-end valuation to a net liability of £2.2m, noting that CIPFA issued guidance on the impact of IFRIC 14 in November 2023, after the publication of the draft financial statements. See Appendix D for further details. The data provided by the Actuary is consistent with the balance sheet and disclosures of pension assets and liabilities. Other than the points above, our audit work has not identified any issues in respect of valuation of the pension fund net liability.

2. Financial Statements: new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Payroll software The Council transferred payroll systems in April 2022 from Teamspirit to iTrent.	We: • obtained an understanding of the process used for new system implementation; • reviewed the data migration activity and results; and • completed an assessment of the IT General Controls in order to consider their design effectiveness.	We have obtained an understanding of the process used for new system implementation and reviewed the data migration activity. We noted nine small variances in the legacy figures between the old and new system, however the signed documentation provided to us by the Council shows that these were subsequently agreed with the Consultant overseeing the process and were not material to the financial statements.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £69.5m	Other land and buildings comprises £21.4m (PY: £20m) of specialised assets which are leisure centres and public conveniences, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £48m (PY: £46.5m) are not specialised in nature and are required to be valued at existing use in value (EUV). The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2023 in line with their five yearly cyclical basis. 44% (PY: 41%) of total assets were revalued during 2022/23. Management place reliance on the work of their expert, and we saw evidence of challenge of the assumptions and valuations by management as part of the valuation process. Management have considered the year end value of non-valued properties totalling £38.9m (PY: £39.4m) to determine whether their carrying value could be materially different to their current value had they been valued in year. We have performed a calculation using indices and have determined that there is not a material difference between the expected fair value and carrying value. The total year end valuation of land and buildings was £69.5m (PY: £66.5m), a net increase of £3m (PY: £43k) from 2021/22 (£66.5m) when valuation and other movements were taken into account, such as capital additions and depreciation.	As part of our audit work, we have challenged management to provide corroborating information and evidence to support the valuations such as lease contracts and other equivalent documents that they have supplied to the valuer. We also challenged management and their expert to understand the methods and assumptions used. As a result of using an external valuer, there has been a change in the way that leisure centres have been valued in this financial year. In previous years, data provided by Sports England was used to calculate valuations but this changed to calculate using the DRC methodology for 2022/23 which resulted in an increase of £1.3m. We challenged this approach and considered whether a prior period adjustment was necessary but concluded that the approach taken was satisfactory. We have reviewed the calculations of the valuer and noted for one asset an incorrect build cost had been used, with a £341k impact – see page 33 for more detail. During our work we noted that the Council does not hold the gross internal floor (GIA) used in some of the calculations as they have relied on their expert. We also noted that the valuation records do not contain the last valuation date along with the valued amount. We have raised recommendations to management in regard of these – see appendix A. We have used our internal expert to review the yields used in the EUV calculations for reasonableness and note no issues.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £16.9m	The Council has engaged an external valuer to complete the valuation of properties as at 31 March 2023. Investment Properties comprise £16.9m (PY: £18.6m) of assets held to generate rental income such as retail units, which are required to be valued at Fair Value (FV) at year end, reflecting the market value, i.e. the price that would be received to sell the asset. The total year end valuation of investment property was £16.9m, a net decrease of £1.7m from 2021/22 (£18.6m).	From our review of the source data provided to the valuer and challenge of the assumptions adopted we did not identify any issues regarding the rental agreements and inputs into the valuation. As stated in our audit plan, we engaged our own auditor's expert to assess the yield assumptions used by management's expert in their valuation. No issues were identified following this work.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £2.2m	The Council's post-audit net pension liability at 31 March 2023 is £2.2m (PY £52.6m) 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. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 31 March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £50.5m net actuarial gain during 2022/23.	With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuary are competent, capable and objective. 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.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.80%-4.85%	●
Pension increase rate	2.90%	2.65%-2.95%	●
Salary growth	3.95%	3.40%-5.40%	●
Life expectancy – Males currently aged 45/65	21.8/23.1	19.5-22.1 / 20.9-23.4	●
Life expectancy – Females currently aged 45/65	22.9/24.4	22.9-24.5 / 24.3-25.9	●

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.

As part of our audit challenge to the actuary, they confirmed that they had not considered the impact of IFRC 14 in their valuation, noting that CIPFA issued guidance on the impact of IFRIC 14 in November 2023, after the publication of the Council's draft financial statements. This changed the value from a £162k net asset in the draft financial statements to a £2.2m net liability in the audited financial statements.

We are satisfied that the updated estimate is reasonable and that the disclosures within the financial statements are adequate.

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £0.9m	The Council is responsible for repaying a proportion of successful rateable value appeals and management calculates the level of provision required. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £0.6m in 2022/23.	We have reviewed management's calculations and note that they appear to be appropriate. We have no issues to report with regard to provisions.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Minimum Revenue Provision - £486k	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 year end MRP charge was £486k, which is a decrease of £2k compared with the MRP charge in 2021/22.	We assess that the Council's policy on MRP complies with the statutory guidance and noted no changes in policy from last year. We considered that the MRP charge was appropriate. Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating: Security management	ITGC control area rating: Technology acquisition, development and maintenance	ITGC control area rating: Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Civica	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Journals	n/a
Northgate	ITGC assessment (design, implementation and operating effectiveness)	●	●	●	●	n/a	n/a
iTrent	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	n/a	We undertook a review of the transition to iTrent including data migration and no issues noted

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

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 and Governance Committee. We 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 and Governance Committee papers.
Confirmation requests from third parties	We requested confirmation requests from the Council's banking providers and organisations with which the Council had invested and borrowed. All of these requests were returned with positive confirmation and no issues were noted.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. The final version of the financial statements includes some minor changes agreed as part of the audit process.
Audit evidence and explanations	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements

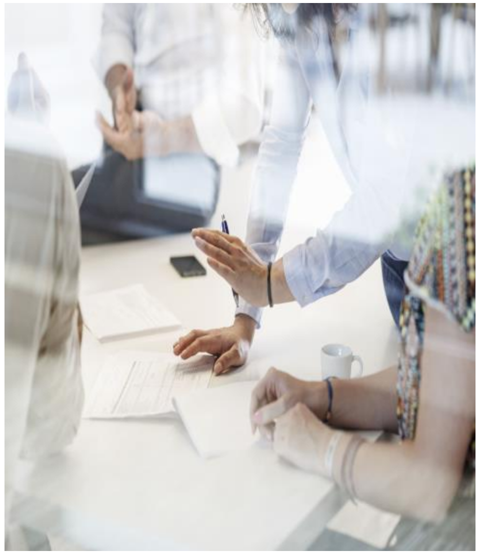
Our responsibility

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

Issue	Commentary
Going concern	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. 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: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern; and • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	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. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • if we have applied any of our statutory powers or duties; or • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. Note that detailed work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of South Hams District Council in the audit report, as detailed in Appendix G, when we issue the audit opinion.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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 was presented to the Audit and Governance Committee in December 2023.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 and consider that an objective reasonable and informed third party would take the same view. 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 E.

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 Grant Thornton International Transparency report 2023.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures on the Housing Benefit Subsidy return in accordance with procedures set out by the DWP.	£32,400*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is expected to be £32,400* for 2022/23 in comparison to the total fee for the audit of £56,460 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been previously reported to the Audit and Governance. None of the services provided are subject to contingent fees.

*Proposed fee

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified five recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. 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
Low	Retention of Councillor information During our work we noted that a related party declaration was not provided, even though the Councillor was present for the full financial year. This information could not be obtained retrospectively as the Councillor has now left the Council. In addition, we noted that one Councillor failed to fully respond to the disclosure requirements. Again, this information could not be obtained retrospectively as the Councillor has now left the Council.	We would recommend that management maintain a central register each financial year showing what information is needed and any information outstanding so that this can be followed up in a timely manner. **Management response** We hold a log of the Related Party Declarations recording which forms have been returned every year. Unfortunately in 2022/23 we were unable to obtain a declaration despite chasing the information in a timely manner. Several attempts were made to obtain the declarations before Councillors left the Council but unfortunately they were unsuccessful.
Medium	Cyber Security Training As part of our review of the Council's cyber security programs, we reviewed compliance of employees against organised cyber security training and identified a significant number of outstanding training courses. Cyber security training is usually designed to alert employees to the potential of cyber security attacks. A lack of attendance at the appropriate training may leave the Council vulnerable to Cyber Security attacks.	We would recommend that management reviews the attendance logs and ensures that for any employees shown as outstanding, this training is completed in a timely manner. **Management response** Managers are issued with a list of the names of their staff who have not completed the training and will be asked to prioritise the completion of training by their teams as a matter of urgency by their Head of Service or Director. Implications such as network access restrictions for non-completers are under consideration.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	Use of unsupported software The Councils' accounting software, Civica Financials, has not been upgraded for a long time with end of support for the application dating back to 2019. The application currently sits on the Council's servers, with the last security patches happening five years ago. There is the risk of data loss or breaches not being detected in a timely manner.	We would recommend the management upgrade the software to ensure that the latest version is in use and support is available if needed. **Management response** It is recognised that the use of unsupported software represents a risk to the organisation. We have been actively working with Civica to upgrade the software. The web-based software was not user-friendly and the team has spent time looking at the various options. We are currently working on a project plan to upgrade to the latest 'UX' version which appears to be a lot more user friendly. This will include moving to a cloud based solution, providing enhanced security and reduced risk. The upgrade to the latest 'UX' version of the software was scheduled for Autumn 2023 but was delayed mainly due to the timing of the 2022/23 Audit. The risks around the delay in implementation have been discussed with both Civica and SLT and mitigations have been put in place. This upgrade will be the team's main priority after closing the 2023/24 Accounts.
Low	Payroll reports Management could not provide "Change in circumstances report" detailing any changes to employment for individuals in the period.	We would recommend that management hold discussions with its payroll software provider to determine how the change in circumstances report can be generated. **Management response** HR will discuss with iTrent, our payroll software provider, the development of a report that will provide this change in circumstances information.
Low	Reconciliation between RAM asset system and the General Ledger Management use software called RAM to maintain their accounting records for property, plant and equipment on an asset by asset basis and import the totals from this software into the general ledger. During our audit we noted a £1.2m difference between the revaluation reserve recorded in RAM and that recorded in the general ledger. This relates to an historic correction related to a specific asset. Management do not use the RAM report to produce the financial statements, however it is important that the records on the two systems match.	We would recommend that Management investigates the discrepancy between the RAM software and the general ledger and performs periodic reconciliations to ensure that no difference is carried forward. **Management response** We are confident that the fixed asset figures in the accounts and the general ledger are correct. This recommendation relates purely to the fixed asset software used in the background. We will work with the software supplier to address the impact of this historic correction in RAM and ensure the revaluation reserve reconciles going forward.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of South Hams District Council's 2021/22 financial statements, which resulted in two recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journal system controls We reported in the prior that 6 members of the finance team have 'level 9' access rights in the Civica system which allows them to edit and delete journals. One of these officers also has the access rights to edit and delete other people's journals as well as create new users. This remains the case for the year ended 31 March 2023. From an audit perspective therefore, journal entry user access rights did not have appropriate segregation of duties in 2022/23. We are aware of a mitigating control that another user downloads a monthly report showing changes in user access rights including whether new users are created. There are also regular budget reviews to detect unusual postings. We have previously reported that the journal system uses retrospective authorization of journals over £25k. We note that this only applies to journals with individual debit transactions over £25k, for example, if a journal was made of 26 lines of £1k, or credit balances over £25k, it would not be picked up in the authorisation reports. Management and Those Charged With Governance should note the risk of the unreviewed journals that do not meet this threshold.	Management have provided the following comments: The Head of Finance and the S151 Officer have reviewed this risk and are happy that there are mitigating controls in place. Journals over £25k are reviewed promptly and this is built into the workplan and individual PCIs which are reviewed on a regular basis by the Head of Finance. Cost Centres with a balance over £30k are also reviewed by the Head of Finance on a quarterly basis. To check all journals that total over £25k would create significant extra work. The risk and the mitigating controls in place have been looked at and we feel that this is robust enough to not warrant the extra work. We are happy with the mitigating control that an Accountant reviews changes in user access rights and new users on a monthly basis. For 2023/24 onwards, HR provide a weekly report of starters, leavers and internal movers. We would however still consider this to be a risk for 2022/23.
X	Input data for valuations For some of the assets tested by ourselves in year, evidence supporting the gross internal floor area (GIA) used in valuation calculations was obtained externally by external valuers. Currently, there is no internal record of measured surveys for the internal areas of assets held which would be best practice. We reported this in the prior year.	Management are happy that the gross internal area is available and have relied on their experts. We would however consider this risk to stand for 2022/23 as the Council do not hold this information.

Assessment

✓ Action completed

X Not yet addressed

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
During our audit work we challenged management's external actuary as to whether they had considered IFRIC 14 in the IAS 19 valuations of the pension fund. They confirmed that they had not, and the net pension asset of £162k in the draft financial statements was updated to a £2.2m liability as at 31 March 2023.	Dr Other comprehensive income – remeasurements of the net defined benefit liability £2,353	Cr Pension asset (£162) Cr Pension liability (£2,191)	£2,353	None
We noted an error in the build cost assumptions used in the Kingsbridge Leisure Centre valuation calculations by the external valuer. The impact of this would increase the value of the building by £341k.	Cr (Surplus) or deficit on revaluation of Property, Plant and Equipment £341k	Dr Kingsbridge Leisure Centre building £341k Cr Revaluation Reserve £341k	£341k	None
Overall impact	£2,353	(£2,353)	£2,353	None

D. 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.

Misclassification and disclosure changes

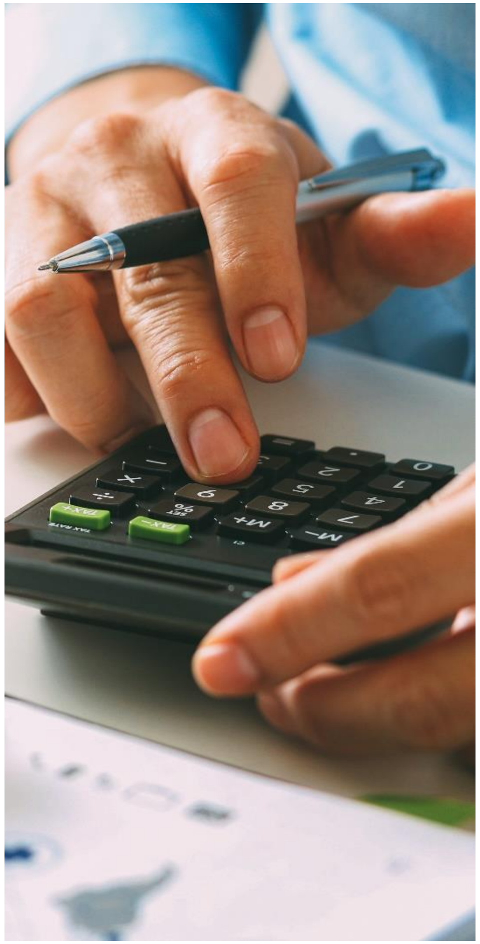
The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Adjusted?
Audit fees – An estimate had been made by management in relation to the fees for grants and certification work of £10k however this should be revised to £32k.	✓
Accounting policies – amendments were noted to enhance the accounting policies and ensure that these were compliant with the CIPFA Code.	✓
Various small wording and typo adjustments throughout the narrative statement and financial statements	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.



Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Reason for not adjusting
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 2023 the CCLA investments total £2.6m. In our view, the investment should be classified as Fair Value through Profit and Loss. The annual loss in value of £979k has therefore been incorrectly debited to Other Comprehensive Income rather than the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. There is currently a 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 from this reclassification.	<u>In year</u> Dr (Surplus) or Deficit on Provision of Services £979k Cr Other Comprehensive Income and Expenditure £979k <u>Cumulative</u> Dr Other Comprehensive Income and Expenditure £325k Cr (Surplus) or Deficit on Provision of Services £325k	No changes to total usable or unusable reserves	Individually and cumulatively not material No impact on the General Fund

E. Fees and non-audit services

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

Audit fees	Proposed fee
Scale fee	£40,110
Additional work on Value for Money (VfM) under new NAO Code – note that as a joint report was issued for 2021/22 and 2022/23, we have discounted this from the previously proposed £9,000	£4,500
Infrastructure assets	£2,500
Journals testing	£3,000
ISA 540	£2,100
Enhanced audit procedures for payroll – change of circumstances	£500
Enhanced audit procedures for Collection Fund – reliefs testing	£750
Increased audit requirements of revised ISAs 315/240	£3,000
Total audit fees (excluding VAT)	**£56,460**

Non-audit fees for other services	Proposed fee
Audit Related Services	
Agreed upon procedures on the Housing Benefit Subsidy return in accordance with procedures set out by the DWP. Note that work remains underway	£32,400

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69)).

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

These changes will impact audits of financial statement for periods commencing on or after 15 December 2022.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures; • the identification and extent of work effort needed for indirect and direct controls in the system of internal control; • the controls for which design and implementation needs to be assess and how that impacts sampling; and • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism; • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence; • increased guidance on management and auditor bias; • additional focus on the authenticity of information used as audit evidence; and • a focus on response to inquiries that appear implausible.
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors; and • additional communications with management or those charged with governance.
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion

Our 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 2023, 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; 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 Chief Financial Officer's 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 Chief Financial 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 2022/23 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 2022) 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.

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information. 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.

G. Audit opinion

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 themselves. 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 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, 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 and the Chief Financial Officer

As explained more fully in the Statement of Responsibilities / Approval of the 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 Chief Financial Officer. The Chief Financial 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial 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 Chief Financial 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

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

G. Audit opinion

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012)).

We enquired of management and the Audit & Governance 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-compliance with laws and regulations.

We enquired of management and the Audit & Governance 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 management's 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 that altered the Authority's financial performance for the year.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud; and
- journal entry testing, with a focus on journals that altered the Authority's financial performance including those posted by senior finance personnel, unapproved journals, journals posted by any unapproved users and journals posted by users with increased system access privileges.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and building valuations, investment property valuations and the valuation of the net defined pension liability. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- knowledge of the local government sector;
- understanding of the legal and regulatory requirements specific to the Authority 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.
- 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.

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

G. Audit opinion

description forms part of our auditor's report.

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 2023.

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.

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 January 2023. 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 – Audit certificate

We certify that we have completed the audit of South Hams District Council for the year ended 31 March 2023 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 44 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.

Signature:

Jackson Murray, Key Audit Partner

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

Bristol

Date:

Grant Thornton

grantthornton.co.uk