South Hams District Council audit plan

Year ending 31 March 2022

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.

Key matters

Factors	Our response
Recovery from Covid 19 pandemic The Council has had to remain flexible in 2021/22 in response to the changing situation caused by the Covid-19 pandemic. It has continued to influence service user behaviour but also impact how those services can be delivered and the working practices of staff. There remains uncertainty over the full financial impact on the Council and future funding arrangements with central government.	We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
Council update There have been significant challenges with the delivery of the waste service, in particular the suspension of the garden waste service in August 2021 which was restarted at the end of March 2022. We are aware that the service has been a matter of intense discussions between the Council and its waste contractor, with a view to seeking a long term solution which will provide a robust and sustainable waste service going forward.	In order to inform our value for money work, we will assess and consider the arrangements in place during the year to manage the waste contract and its performance and we will also consider whether the waste contract has any implications on the financial statements.
Infrastructure Assets The CIPFA Code of Practice on Local Authority Accounting ("the Code") prescribes the accounting treatment and disclosure requirements for infrastructure assets and requires these to be reported in the Balance Sheet at depreciated historical cost (i.e. historic cost less accumulated depreciation and impairment.) Nationally, this has become an area of regulator interest, with CIPFA and the National Audit Office also reviewing this issue, with CIPFA having recently convened a task and finish group to consider this specific issue and any resultant changes that may need to be enacted in the Code. There a risk that where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets, they may not readily be able to identify the original assets being replaced or enhanced. This could result in an overstatement of both gross book values and accumulated depreciation, and potentially also net book values where assets lives have not been assessed regularly and on an appropriate basis.	We will continue to review the progress of the CIPFA task and finish group on this issue and will keep members of the Audit Committee updated with regard to the impact on the financial statements and our audit responsibilities.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of South Hams District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of South Hams District Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Valuation of land and buildings;
- Valuation of investment properties; and
- Valuation of the pension fund net liability.

We considered the other presumed risks in relation to the fraudulent recognition of income and expenditure and rebutted these in line with our understanding of the Council and it's revenue and expenditure streams.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.06m (PY £905k) for the Council, which equates to approximately 2% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £53k (PY £45k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness at the Council at this stage. We will continue to update our risk assessment as our audit work continues.

During our work we will follow up on the improvement recommendations made in the previous year, as reported in our Auditor's Annual Report, and note any progress.

Audit logistics

Our interim visit took place in March 2022 and our final visit is planned to take place following receipt of draft accounts, expected in July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit at planning will be £61,709 (PY: £54,271) for the Council if remote working is required, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA 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. This presumption can be rebutted in 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 nature of the revenue streams at South Hams District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable. We do not consider this to be a significant risk for South Hams District Council.
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.	At the planning stage we do not consider this to be a significant risk for South Hams District Council. We will continue to consider this risk as we progress through the audit.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. In the 2020/21 audit, we identified that there was significant manual intervention required from the finance team to reconcile the transaction reports to the financial statements which are indicative of the conditions which create this risk. This was due to the ability of the team to run IT reports from the finance ledger which are large in size due to the number of financial transactions. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	The Council revalues its land and buildings on a rolling five yearly basis. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£68.3m at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date for assets not revalued at 31 March 2022. We therefore identified valuation of land and buildings as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; • review the Council's valuation reports and the assumptions that underpin the valuations to ensure that they appear to be reasonable; • test revaluations made during the year to see if they had been input correctly into your asset register; and • evaluate 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.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	The Council has investment properties which must be valued annually at 31st March in accordance with the CIPFA Code. As with other land and buildings, the valuation for these properties is sensitive to changes in key assumptions. Whilst the methods used to value properties are usually generic and based upon RICS guidance, the Council's valuation expert applies key assumptions in the valuation process, with small changes having the ability to create significant changes in valuation. We therefore consider that the significant risk of material misstatement in respect of the valuation of Investment Properties lies with the assumptions and judgements used in the valuation, specifically; • the yield applied in the calculation; and • assumptions about annual income and future income levels. Due to the size of the estimates, and the assumptions set out above, we consider the valuation of Investment Properties to be a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge 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 will include testing to rental or lease contracts to check the annual income for properties; and • test revaluations made during the year to see if they had been input correctly into the Council's asset register.
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in the balance sheet as the pension 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 (£61.4m at 31 March 2021) 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. 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 net defined benefit pension liability as a significant risk.	We will: • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; • undertake 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 • obtain assurances from the auditor of Devon County Council 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- valuations of land and buildings;
- valuation of investment properties;
- valuation of net defined benefit pension liabilities;
- depreciation;
- year end provisions and accruals;
- fair value estimates; and
- credit loss and impairment allowances (if material).

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- how management understands the degree of estimation uncertainty related to each accounting estimate; and
- how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- how sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainly is unresolved.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and/or
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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

Materiality for planning purposes

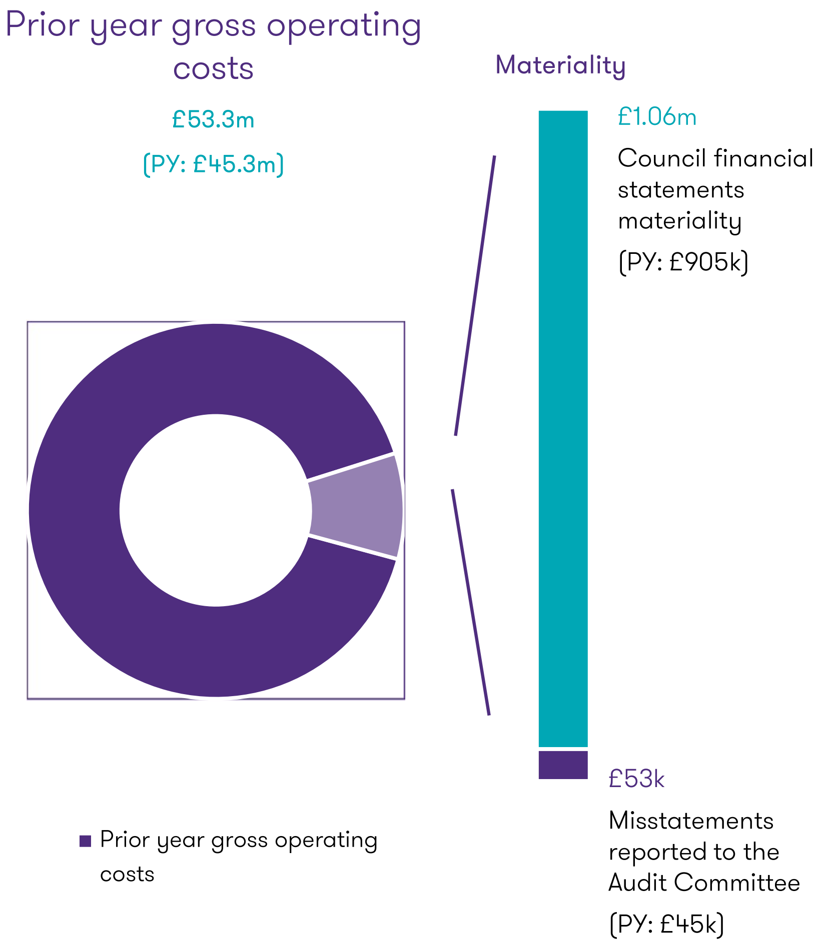
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the previous financial year. In 2020/21 we used the same benchmark. Materiality at the planning stage of our audit is £1.06m (PY £905k) for the Council, which equates to approximately 2% of your prior year gross revenue expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20,000 for senior officer remuneration disclosures.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £53k (PY £45k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

We are not planning to rely on the operation of application controls. Therefore we will carry out a streamlined ITGC assessment on the IT systems that support the operation of the finance system rather than gaining assurance that the relevant controls of specific systems have been operating effectively throughout the period.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica	Financial reporting	• streamlined ITGC assessment (design effectiveness); and • understanding of link to feeder systems
Northgate	Council Tax, Housing Benefits	• streamlined ITGC assessment (design effectiveness)
Teamspirit	Payroll	• streamlined ITGC assessment (design effectiveness)

We are aware that post year end, there has been a new system implementation for payroll. Audit procedures for data migration and set up will be included in the 2022/23 audit.

IT system	Event	Relevant risks	Planned IT audit procedures
iTrent	New system implementation	Post migration data completeness and accuracy; system functionality operating to design.	• obtain an understanding of the process used for new system implementation (determine whether there was adequate oversight for acquisition and installation); and • audit of data migration activity and results.

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team

Planning and risk assessment

Audit committee March 2022
Audit Plan

Interim audit March 2022

Audit committee June 2022
Interim Progress Report

Year end audit From July 2022

Audit committee TBC
Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Audit committee TBC
Auditor's Annual Report

Jackson Murray, Key Audit Partner

Responsible for overall client relationship, quality control, provision of accounts opinions, meeting with key internal stakeholders and final authorisation of reports. Attendance of Audit & Standards Committee meetings supported by Manager as required.

Oliver Durbin, Audit Manager

Responsible for overall audit management over the course of the year, support and review of work performed by audit In-charge and junior team members. Attendance at Audit Committee meetings alongside Engagement Lead as required.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

Audit fees

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In 2017, PSAA awarded a contract of audit for South Hams District Council to begin with effect from 2018/19. The fee agreed in the contract was £33,421. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 9 and 10 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

The 2021/22 fee also reflects recent regulatory and technical reviews in respect of accounting for infrastructure assets and the additional work that audit teams have been requested to perform considering the potential for derecognition of historic components.

The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local authorities are exploring new ways of working to support their officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to the Council, and its workforce, both in providing more flexibility and reducing its environmental impact.

Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

As part of our planning for 2021/22, we have been engaging with the Council to explore completing some elements of our work on-site over the summer. With Covid restrictions now lifted, this is the appropriate thing to do. We have been discussing this with PSAA and propose that where councils continue to have a preference to undertake audits remotely, either fully or in part, that audit fees would be uplifted to reflect the inefficiencies that this would cause. For South Hams District Council, we estimate this uplift to be in the region of £5,000 at our planning stage.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf.

	Actual Fee 2020/21	Proposed fee 2021/22
South Hams District Council Audit	£54,271	£56,709
Remote working (additional fee if required)		£5,000
Total with remote working (if required)		£61,709

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements , supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Proposed 21/22
Scale fee published by PSAA	£36,421
Raising the bar/regulatory factors	£2,313
Enhanced audit procedures for Property, Plant and Equipment	£687.50
Enhanced audit procedures for Pensions	£687.50
New standards and developments (inc journals and grants)	£5,100
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Infrastructure assets (new issue for 2021/22)	£2,500
Uplift for remote working (if required)	£5,000
Total audit fees (excluding VAT)	**£61,709 (If remote working needed)**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The table sets out the other services provided by Grant Thornton that were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of the Council's Housing Benefit subsidy claim	11,500*	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 £11,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee (with further agreed costs for additional work required subject to any errors being identified) and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

*base cost assuming no further work is required to be undertaken on errors identified.

Grant Thornton

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