

Phil Norrey  
Chief Executive

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To: The Chairman and Members of  
the Audit Committee

County Hall  
Topsham Road  
Exeter  
Devon  
EX2 4QD

(See below)

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Your ref :  
Our ref :

Date : 6 September 2017  
Please ask for : Dan Looker, 01392 382232

Email: dan.looker@devon.gov.uk

## **AUDIT COMMITTEE**

Thursday, 14th September, 2017

A meeting of the Audit Committee is to be held on the above date at 2.15 pm in the Committee Suite - County Hall to consider the following matters.

P NORREY  
Chief Executive

## **A G E N D A**

### **PART I - OPEN COMMITTEE**


- 1 Apologies for absence
- 2 Minutes (Pages 1 - 2)  
Minutes of the meeting held on 30 June 2017, attached.
- 3 Items Requiring Urgent Attention  
Items which in the opinion of the Chairman should be considered at the meeting as a matter of urgency.
- 4 Devon County Council Audit Findings Report (Pages 3 - 50)  
Report of Grant Thornton (CT/17/66), attached.
- 5 Devon Pension Fund Audit Findings Report (Pages 51 - 78)  
Report of Grant Thornton (CT/17/67), attached.
- 6 Internal Audit Progress Report (Pages 79 - 92)  
Report of the County Treasurer (CT/17/69), attached.

- 7 Statement of Accounts & Annual Governance Statement 2016/17 (Pages 93 - 104)  
Report of the County Treasurer (CT/17/68) attached, together with the Statement of Accounts booklet attached separately and published as a supplementary pack on the web.
- 8 Corporate Risk Management Arrangements - Changes to the Management of Risk (Pages 105 - 114)  
Report of the County Treasurer (CT/17/65) summarising the key recommendations of the Internal Audit Report and the action being taken.
- 9 Future Meetings  
Please use link below for County Council Calendar of Meetings:  
<http://democracy.devon.gov.uk/ieListMeetings.aspx?CId=161&Year=0>

**PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED**

None

<p><i>Members are reminded that Part II Reports contain confidential information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Democratic Services Officer at the conclusion of the meeting for disposal.</i></p>
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<b>Membership</b>
Councillors J Mathews (Chairman), I Hall, J Berry, J Brazil, E Brennan, R Peart and A Saywell
<b>Declaration of Interests</b>
Members are reminded that they must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.
<b>Access to Information</b>
Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Dan Looker, 01392 382232. Agenda and minutes of the Committee are published on the Council's Website and can also be accessed via the Modern.Gov app, available from the usual stores.
<b>Webcasting, Recording or Reporting of Meetings and Proceedings</b>
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<p>If you need a copy of this Agenda and/or a Report in another format (e.g. large print, audio tape, Braille or other languages), please contact the Information Centre on 01392 380101 or email to: <a href="mailto:centre@devon.gov.uk">centre@devon.gov.uk</a> or write to the Democratic and Scrutiny Secretariat at County Hall, Exeter, EX2 4QD.</p>
 Induction loop system available

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**SatNav** – Postcode EX2 4QD

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Contact Main Reception (extension 2504) for a trained first aider.

## AUDIT COMMITTEE

30 June 2017

Present:-

Councillors J Mathews (Chairman), I Hall, J Berry, E Brennan, R Peart and A Saywell

\* **1**      **Minutes**

**RESOLVED** that the Minutes of the meeting held on 28 March 2017 be signed as a correct record.

\* **2**      **Annual Governance Statement 2016/17**

The Committee considered the Report of the Corporate Leadership Team (CS/17/17) on the Governance Statement which the Council was required to publish in accordance with CIPFA/SOLACE guidance and to comply with Regulation 6 of the Accounts and Audit (England) Regulations 2015.

The Statement confirmed that the governance arrangements provided a high level of assurance; that the arrangements continued to be fit for purpose and that the Council's governance structures reflected the core and sub-principles of the Governance Statement.

It was **MOVED** by Councillor Mathews, **SECONDED** by Councillor Hall and

**RESOLVED** that the Annual Governance Statement for 2016/17 be approved and the Chairman be authorised to sign the Statement.

\* **3**      **Annual Internal Audit Report 2016-17**

The Committee considered the Report of the Head of Devon Audit Partnership (CT/17/63) on the performance of Devon Audit Partnership against the internal audit plans for 2016/17, concluding that internal audit was able to provide significant assurance on the adequacy and effectiveness of the Council's internal control framework.

The Head of the Partnership undertook to provide clarification to Members on why the internal audit plan for Public Health identified 0 days.

It was **MOVED** by Councillor Mathews, **SECONDED** by Councillor Saywell and

**RESOLVED**

(a) that the internal audit opinion that the Council's systems contain a satisfactory level of internal control be noted;

(b) that the satisfactory performance and achievements of Devon Audit Partnership during 2016/17 be noted;

(c) that the Council's continuing commitment to the maintenance and enhancement of anti-fraud culture be endorsed.

# Agenda Item 2

AUDIT COMMITTEE  
30/06/17

\* **4**      **External Audit Update**

The Committee noted the Report of Grant Thornton (CT/17/64) outlining progress on the delivery of their responsibilities as the Council's external auditors and included a summary of emerging national issues and developments relevant to the Council.

**\*DENOTES DELEGATED MATTER WITH POWER TO ACT**

The meeting started at 2.15pm and finished at 2.45pm.

CT/17/66  
Audit Committee  
14<sup>th</sup> September 2017

## **EXTERNAL AUDIT – AUDIT FINDINGS REPORT FOR DEVON COUNTY COUNCIL 2016/17** **Report provided by Grant Thornton via the County Treasurer**

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

**Recommendation:** that the Committee notes the attached report and findings within.

1. The attached report, provided by the Council's External Auditors (Grant Thornton), sets out the findings arising from the audit of the County Council's financial statements and the work undertaken in relation to the value for money conclusion.
2. It describes the work that the external auditors have undertaken to address the risks identified in the Audit Plan, which was presented to the Audit Committee in March 2017.

Mary Davis  
Electoral Divisions: All  
Local Government Act 1972  
List of Background Papers

Contact for Enquiries:

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Background Paper: None





# The Audit Findings for Devon County Council

**Year ended 31 March 2017**

August 2017

**Elizabeth Cave**  
Director

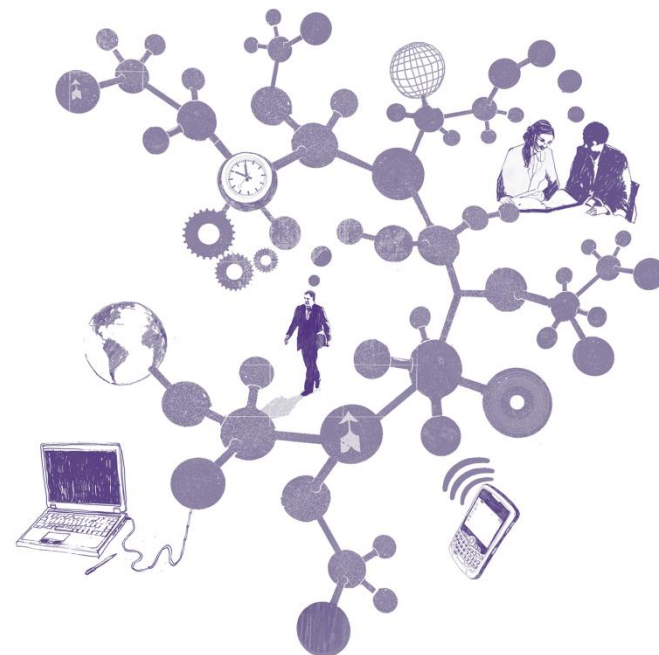
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1 August 2017

Dear Members of the Audit Committee

**Audit Findings for Devon County Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Devon County Council Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Elizabeth Cave  
Director

**Chartered Accountants**

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## Appendices

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- B Audit opinion

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# Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Devon County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 16 March 2017.

Our audit is substantially complete although as at 22 August we are finalising our procedures in the following areas:

- Management review and quality control procedures
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 and the audited financial statements show net expenditure of £197,659k. We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the draft financial statements and the supporting working papers were prepared to a good standard
- we identified one material adjustment where £30m was included in cash and cash equivalents which should have been included in short term investments. The Balance Sheet and Cash Flow Statement have been amended. There was no impact on net assets.
- we identified no significant amendments to the Comprehensive Income and Expenditure Statement
- we have reviewed the pension accounts and no significant issues have been identified.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

We draw your attention in particular to a control issue identified in relation to:

- the bank reconciliation at the year end did not take into account the total amounts in the ledger of cash and cash equivalents. Due to the early closure of the ledger, the Council amended the way they posted the bank transactions that cleared on the last day of the year. However two departments (exchequer and technology) were both involved in making adjustments for these entries and no overall reconciliation of the final amounts in the ledger was completed. This has led to an uncleared suspense account balance of £2.4m which overstated creditors, and overstatements of bank balances by £1.1m and debtor balances by £1.3m. These have been amended in the final set of accounts.

Further details are provided within section two of this report.

## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We have focused our work on the significant risks that we identified per our audit plan. In arriving at our conclusion, our main considerations were:

- **Delivery of planned recurrent savings** – the Council delivered a balanced budget despite the significant pressures on Adult Services and not having delivered all the planned savings. Regular monitoring of savings during the year allowed the Council to manage its budget closely to achieve the planned outturn.
- **Financial sustainability & identification of recurrent savings for 2017/18 and beyond** – the Council has developed a medium term financial strategy from 2017/18 to 2020/21 which includes a balanced budget for 2017/18. Further savings remain to be identified from 2018/19 onwards. Following the announcement of additional Better Care Fund funding for Adult Social Care the Council is awaiting guidance how this can be used in order to refresh its medium term financial strategy (MTFS).
- **Service Transformation project** – the Council has started a transformation programme and this year has scoped some of the key areas for transformation with the aim of finalising a transformational plan in the 2017/18 financial year. The Council has made some progress however significant work needs to be done in order to deliver the required savings in the medium term and arrangements need to be made for monitoring the programme to ensure delivery.

Further detail of our work on Value for Money are set out in section three of this report.

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the County Treasurer and Deputy County Treasurer.

We are continuing to obtain evidence in relation to an objection to the 2015/16 accounts about expenditure under the Care Act 2014 and we have received a further objection relating to the 2016-17 accounts.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the County Treasurer, and Deputy County Treasurer.

## Acknowledgement

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

**Grant Thornton UK LLP**  
August 2017

# Section 2:    Audit findings

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that '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'.

As we reported in our audit plan, we determined overall materiality to be £20 million (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1 million. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

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Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Devon County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition;</li><li>• opportunities to manipulate revenue recognition are very limited; and</li><li>• the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable.</li></ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work performed:</p> <ul style="list-style-type: none"><li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li><li>• review of accounting estimates, judgements and decisions made by management</li><li>• review of unusual significant transactions.</li></ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"><li>• Review of management's processes and assumptions for the calculation of the estimate.</li><li>• Review of the competence, expertise and objectivity of any management experts used.</li><li>• Review of the instructions issued to valuation experts and the scope of their work</li><li>• Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li><li>• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li><li>• Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li><li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li></ul>	<p>The Council has revalued a large proportion of its Property, Plant and Equipment in year with a valuation date as at 31 December 2016. The valuation was found to be carried out by a suitably qualified expert.</p> <p>The valuer has assessed £608.8m of the £813.7m total net book value of Property, Plant And Equipment at the year end which covered land and buildings, surplus assets and assets held for sale. No issues arose from the testing performed.</p> <p>We are satisfied that the Council has demonstrated that the carrying value of all other property, plant and equipment valued in prior years is not materially misstated.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet ,represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"><li>Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li><li>Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li><li>Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul>	<p>Our audit work involved review of the IAS 19 valuation including the reasonableness of the actuarial assumptions made.</p> <p>PwC are an audit expert and carried out a review of the actuarial assumptions used for the valuation of the Authority's pension fund liability. As part of PwC's review of IAS 19 reporting as at 31 March 2017 for the National Audit Office, Audit Scotland and Wales Audit Office which reviewed the assumptions used by actuaries for valuing the pension liability, the following was noted, "For employers advised by Barnett Waddingham, the discount rates proposed fall outside of our expected ranges as the methodology is not as robust as we would expect, particularly under market conditions at 31 March 2017."</p> <p>The Authority's pension liability was estimated by Barnett Waddingham using a discount factor that was 0.1% above PwC's expected range (2.5% to 2.7%). The impact is a possible overstatement of the liability of 2% (£23,492k). This has been discussed with management where we challenged the rationale for management using the discount factor of 3.8% and considered it to be reasonable overall taking into account other assumptions used.</p> <p>Overall taking into account other assumptions such as CPI and mortality rates which can alter the value of the pension liability estimate and by performing a sensitivity analysis, we considered the overall assumptions as a collective reasonable. The pension liability is an accounting estimate and will therefore never be 100% accurate as they are highly sensitive to changes in assumptions. We discussed with management the rationale for the assumptions used and concluded that the estimate was reasonable.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li><li>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure</li><li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li><li>• tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li><li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li><li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li><li>• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li></ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. We confirmed that the disclosures and presentation are in line with what has been reported to the Council in year.</p> <p>However we did request that the Expenditure and Funding Analysis (EFA) was included in the notes of the accounts. This was due to the CIPFA Code not defining the EFA as a primary statement. If the EFA is not included in the financial statements as a note to the accounts it will not be covered by our audit opinion.</p>

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
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<p><b>Employee remuneration</b></p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>Reconcile the pay expenditure reported in the financial statements to total expenditure recorded in the payroll.</li> <li>Trend analysis analytical review</li> <li>Substantively test a sample of remuneration transactions</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b></p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>Agree creditors to the ledger</li> <li>Substantive testing of significant creditor balances</li> <li>Review of after date payments to ensure all liabilities identified</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>During our review of post year end payments. we identified one error of £147k relating to capital expenditure which should have been accrued in the financial year 2016-17. We have considered and evaluated this error and are satisfied that reasonable assurance has been obtained over the completeness of operating expenses.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them."  
(ISA (UK&I) 315)

# Audit findings against other risks continued

## **Going concern**

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the Council is a going concern is appropriate.



# Significant matters discussed with management

	Significant matter	Commentary
Page 20	<p>1. Devon County Council settled its claims in relation to the Dartington Primary School in the aggregate amount of £8,015,000. As is common in settlements of this nature, no admission of liability was made by any party. We discussed the appropriate accounting treatment of the £8m sum which the Council has treated it as a revenue receipt. This is because the sum is in relation to a capital asset and associated revenue costs which be replaced and funded by borrowing whilst the accounting treatment in the financial statements benefits the revenue account where £8m has been taken to reserves. We discussed with the Council whether the receipt should be capital and it was concluded that the accounting treatment of it being a revenue receipt was reasonable.</p>	<p>The accounting treatment is technically acceptable however the Council should consider whether it is appropriate to finance the rebuild of the school from internal borrowing given that an £8m settlement relating to this has been received.</p> <p><b>Management response</b></p> <p>The authority has already considered the financing of the rebuild as documented in the Outturn report to Cabinet in June of this year.</p>
	<p>2. It was not initially clear how cash for several bank accounts (with cash totalling £1.1m at year end) was accounted for.</p> <p>Management looked into the cash collection procedures and it was found that these accounts related to a number of areas where individuals and organisations pay-in cash and the cash balances are subject to weekly transfers to the Council's main bank account. We were informed by management that these balances are not accounted for as separate accounts but are accounted for as cash in transit on the main bank account. Management acknowledged that at the year end it is likely that small balances will be unaccounted for and posted to the new year but the amounts involved are trivial.</p>	<p>We are satisfied that there is not a control weakness, and, given the low value of balances held in these accounts we have accepted the accounting treatment. However we recommend that the cash in transit balances are clearly identified on the bank reconciliation at month end including which account they relate to and that procedure notes are updated to fully document the accounts held, the purpose for them and the processing procedures in place for each.</p> <p><b>Management response</b></p> <p>This is not a significant issue. However, it is recognised that greater understanding and transparency is needed to ensure appropriate overview of procedures during the absence of key members of staff.</p>



# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The Council's policy on revenue recognition is included in note 1 of the Statement of Accounts.</li> <li>Fees, charges and rents due from customers are accounted for as income at the date the Authority provides the relevant goods and services;</li> <li>Council tax and Non Domestic rates revenue is recognised when the following conditions have been satisfied: <ul style="list-style-type: none"> <li>a) the amount of revenue can be measured reliably; and</li> <li>b) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting (the Code).</li> <li>The disclosure of the accounting policy is adequate.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include : <ul style="list-style-type: none"> <li>Useful life of PPE</li> <li>Revaluations</li> <li>Impairments</li> <li>PPE valuations</li> <li>Valuation of pension fund net liability</li> <li>Provisions</li> <li>PFI</li> </ul> </li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> <li>Appropriate policies have been used</li> <li>Accounting policies have been adequately disclosed</li> <li>Areas where judgement had been used were supported by the work of an expert or a third party</li> <li>The Authority's pension liability was estimated by Barnett Waddingham using a discount factor that was 0.1% above PwC's expected range (2.5% to 2.7%). The impact is a possible overstatement of the liability of 2% (£23,492k). This has been discussed with management where we challenged the rationale for management using the discount factor of 3.8% and considered it to be reasonable overall taking into account other assumptions used.</li> </ul>	 <b>Green</b>

## Assessment

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The County Treasurer, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	<div><div></div><div>Green</div></div>
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	<div><div></div><div>Green</div></div>

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# 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
1.	Matters in relation to fraud	<ul style="list-style-type: none"><li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li></ul>
2.	Matters in relation to related parties	<ul style="list-style-type: none"><li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li></ul>
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"><li>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.</li></ul>
4.	Written representations	<ul style="list-style-type: none"><li>A standard letter of representation has been requested from the Council, which is included in the Audit Committee papers</li></ul>
5.	Confirmation requests from third parties	<ul style="list-style-type: none"><li>We requested from management permission to send (a) confirmation request(s) to all institutions where the Council holds cash balances. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation.</li></ul>
6.	Disclosures	<ul style="list-style-type: none"><li>Our review found no material omissions in the financial statements</li></ul>



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# Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"><li>• We are required to report on a number of matters by exception.</li></ul> <p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"><li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li><li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li></ul>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is not yet completed and the planned timescale for the work has been agreed with officers for the end of August. We have explored the possibilities for including this work as part of the audit fieldwork, however guidance from the treasury has not been available to enable this work to be completed earlier than the agreed timescale.</p>

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# Internal controls

	Assessment	Issue and risk	Recommendations
1.		<ul style="list-style-type: none"> <li>We found that the bank reconciliation at the year end did not take into account the total amounts in the ledger of cash and cash equivalents. Due to the early closure of the ledger, the Council amended the way they posted the bank transactions that cleared on the last day of the year. However two departments (exchequer and technology) were both involved in making adjustments for these entries and no overall reconciliation of the final amounts in the ledger was completed. This has led to an uncleared suspense account balance of £2.4m which overstated creditors, and overstatements of bank balances by £1.1m and debtor balances by £1.3m.</li> <li>Bank reconciliations are a fundamental part of control and if they are not fully completed and reviewed there is a risk of mis-statement due to error or fraud.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend the Council reviews its reconciliation process to ensure all transactions before and after the year end are considered as part of the reconciliation.</li> </ul>
2.		<ul style="list-style-type: none"> <li>We found that there were balances held within the ledger suspense accounts as at the year end of £2.6m including the £2.4m referred to in point 1 above.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that all suspense accounts are cleared to zero at the year end.</li> </ul>

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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



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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

# Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.		<ul style="list-style-type: none"><li>The Head of Financial Management &amp; Processes has system administrative rights in the P2P application and is able to both raise purchase orders and approve them. Whilst we understand that this is not done in practice, our understanding is that there is no system control in place to actually prevent this from happening.</li></ul>	<ul style="list-style-type: none"><li>We recommend that the Council reviews the users' administrative rights and consider whether appropriate controls are in operation.</li></ul>

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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"><li>In the prior year, review of year end journals identified a large number of journals above the threshold of £200,000 which did not require authorisation in the system by a separate individual</li></ul>	<ul style="list-style-type: none"><li>The Council implemented a control to ensure that journals above the threshold of £200,000 are reviewed and authorised by a separate individual</li></ul>

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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.

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
Page 28 1	Balances included in suspense account have been classified as Creditors. This balance relates to both cash received as at 31 March 2017 and debtors. Proposed adjustment is:	£nil	£	£Nil
	DR Creditors £2,445,057		2,445,057	
	CR Debtors £1,310,101		(1,310,101)	
	CR Cash £1,134,956		(1,134,956)	
2	Balances included in Cash and Cash Equivalents should have been classified as Short Term Investments Proposed adjustment is:	£nil	£	£Nil
	DR Short Term Investments £30,000,000		30,000,000	
	CR Cash £30,000,000		(30,000,000)	
Overall impact		£nil	£nil	£nil



# Misclassifications 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.

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Disclosure	N/A	Expenditure and Funding Analysis	A request was made to move this to the notes to the accounts so it is appropriately covered by the audit opinion
2	Misclassification	2,729	Note 13 Asset under construction	A recycling centre was misclassified as an asset under construction as at 31 March given it went into operation before the year end and therefore should be included under land and buildings
3	Disclosure	(3,745)	Note 13 - Other Land and Buildings - Assets reclassified to Held for Sale-	This movement does not relate to Assets Held for Sale and therefore is be disclosed under other movements in cost or valuation

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# Section 3: Value for Money

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01.	Executive summary
02.	Audit findings
03.	Value for Money
04.	Other statutory powers and duties
05.	Fees, non-audit services and independence
06.	Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

When carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in March 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 16 March 2017.

- Delivery of planned recurrent savings – the Council set a balanced budget after identifying £34.3 million of savings to be delivered in year.
- Financial sustainability and identification of recurrent savings for 2017/18 and beyond - the latest medium term financial strategy outlined £40.6 million of savings for 2018/19 to 2020/21 which still needed to be found.
- Service transformation projects- the Council has started a programme delivering significant changes to the way in which services are delivered. The programme requires a number of key projects and investments, which are significant both in scale and financial terms.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Significant qualitative aspects

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

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

- Delivery of planned recurrent savings – the Council delivered a balanced budget despite the significant pressures on Adult Services and not delivering all the savings it planned to. However, regular monitoring of savings during the year allowed the Council to manage its budget closely to achieve an expected outcome.
- Financial sustainability & identification of recurrent savings for 2017/18 and beyond- the Council has developed a medium term financial strategy from 2017/18 to 2020/21 where there is a balanced budget for 2017/18 with no savings gaps. Further savings remain to be identified from 2018/19 onwards. Work on the next MTFS is in progress and, following the announcement of additional Better Care Fund funding for Adult Social Care as at the year end, guidance is awaited on how this can be used before the MTFS is refreshed.
- Service Transformation project- the Council has started a transformation programme scoping in year some of the key areas to implement transformation with the view to finalising a transformational plan in the 2017/18 financial year. The Council has made some progress however significant work needs to be done in order to deliver the required savings in the medium term and arrangements need to be made for monitoring the programme to ensure delivery.
- We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 29 to 31.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

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

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement as follows.

- Whilst progress has been made with regard to reporting variances and non delivery of savings, the Council should increase its transparency providing further details in terms of reporting the delivery of planned savings
- The Council should refresh its medium term financial strategy and budget to take into account new social care funding and the latest demand for Adult and Childrens' services.
- The Council should introduce a framework with key milestones for monitoring progress of its transformational programme and ensure that it has detailed delivery plans for savings and when they are realistically to be achieved
- Management's response to these can be found in the Action Plan at Appendix A.

## Key findings

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

Significant risk	Work to address	Findings and conclusions
<p><b>Delivery of planned recurrent savings</b></p> <p>The Council set a balanced budget for 2016/17 after identifying £34.3 million of savings that were needed to achieve a balanced budget for the year. To achieve these savings whilst maintaining provision of service presents a challenge. There is a risk of not achieving the required savings in year resulting in potential overspends in budget for current and future years.</p>	<p>We reviewed the arrangements for monitoring and managing delivery of the 2016/17 budget and savings plans. We will review the Council's arrangements for 2017/18 budget setting including identification of savings plans.</p>	<p>The Council delivered an outturn position as forecast for 2016/17 and of the savings identified in its budget achieved £26.8m of a total £34.3million which was previously identified.</p> <p>The Council monitors its savings plans in year through the budget management group which is attended by Senior Finance Officers. If there are any significant variations, these are reported and escalated to members accordingly. There is clear evidence of this having occurred during the course of the financial year which demonstrates a step forward and progress in terms of reporting variances and budget difficulties. Despite this there is scope to improve the transparency of reporting savings delivery further against planned outcomes.</p> <p>As in previous years, the main budget pressure during the financial year has been on Adult Services where the Council had an overspend of £6.9 million in 2016/17 taking into account a one off benefit of £4m relating to procurement activity and underspend in the Better Care Fund. Given the budget pressures the Council did not achieve all of its expected savings which totalled £34.3 million at the start of the year. A total of £7.8m of savings was written out of the plans during the year, however new one off savings of £4m were used to offset this along with the Council achieving underspends in other areas in order to deliver an outturn position as originally forecasted.</p> <p>The non delivery of planned savings resulted in a significant shortfall and this has led to the Council revising planned recurrent savings for future years in the latest Medium Term Financial Plan published in February. Relying on compensating in year underspends are only a short term measure and use of one off measures results in increasing financial pressures to deliver more recurrent savings in the future.</p> <p>Overall despite the significant pressures on Adult Services which resulted in savings not being achieved, the Council has delivered its targeted outturn. While not all planned savings were achieved, regular monitoring has allowed the Council to implement new savings plans and achieve underspends in other areas to ensure the outturn was delivered. On this basis, we have concluded that the risk was sufficiently mitigated and the Council has adequate arrangements in place. However the non delivery of some savings in 2016/17 has resulted in increasing pressures going forward.</p>

## Key findings

Significant risk	Work to address	Findings and conclusions
<p><b>Financial sustainability and identification of recurrent savings for 2017/18 and beyond</b></p> <p>Whilst the Council has set a balanced budget for 2016/17 and 2017/18, and has increased council tax by the maximum permitted, finding additional savings in future years continues to be a increasing significant challenge. The latest medium term financial strategy (MTFS) outlined that £40.6 m of savings for 2018/19 to 2020/21 still need to be found. To achieve this whilst maintaining provision of service presents a challenge.</p> <p>Following the Budget announcement in March 2017 of increased funding for adult and social care, this may require the Council's medium term financial strategy to be refreshed accordingly.</p> <p>There was a risk that recurrent savings are not identified and achieved to fill the savings gap identified.</p>	<p>We reviewed the Council's arrangements for updating, agreeing and monitoring its Medium Term Financial Strategy. Specifically we will consider the robustness of the financial planning assumptions and arrangements for ensuring the financial projections including future savings are realistic and achievable.</p>	<p>The Council has a strong track record of delivering to budget and has produced a balanced budget for 2017/18 which relies on bridging a gap of £22.2m through new savings. The Council has a medium term financial strategy for the period 2017/18 to 2020/21 approved by the Council in February 2017 which includes savings plans identified and gaps. This is supported by a rolling 4 year plan which provides details of individual savings plans and owners and is updated on a regular basis. In producing the MTFS the Council has carried out a risk assessment of potential variation of services budgets in the medium term and the required contingencies detailing the level of reserves required.</p> <p>The main budget pressure in 2017/18 and going forward as in the previous year is spending on Adult Social Care. The Council have provided a £18.7m increase in the Adult and Social Care budget in 2017/18 compared to the prior year primarily funded by the recently announced Adult Social Care precept which is estimated to provide £10.2m, however this will cease to be available in 2019/20 underlying the need for transformation change of services which the Council has started to plan. Similarly, the Council budget for 2017/18 contains a one off Adult social care support grant funding available in 2017/18 of £3.6m which is not available in future years.</p> <p>With regard to the £22.2m savings gap in 2017/18, this was originally £33m and is to be partly filled by a planned transfer from earmarked reserves of £11.6m generated from the changes to the Minimum Revenue Provision (MRP) policy changed in the 2015/16 financial year. Whilst an acceptable strategy, the 2017/18 balanced budget is reliant on delivery of recurrent savings and transfers from reserves which leads to greater pressures in the medium term and underlines the need for transformation programmes to make an impact and deliver the savings required. The Council has been benefitting from one off non recurrent situations including the change in MRP policy and the legal settlement in relation to Dartington School. The school settlement has led to £8m being placed in reserves during the 2016/17 financial year.</p> <p>Despite the challenges, recent announcements to increase the Better Care Fund (BCF) to fund Adult Social care may ease the burden in the medium term where savings are still to be identified. However as at 31 March 2017, it was unclear how this additional funding is able to be spent and is contingent on agreement with BCF health partners and the specific strategies and targets of the BCF which may restrict the use of such funds. As at 31 March 2017, this was still to be determined and it is recommended that the Council revisits their MTFS and budget to take into account of this new social care funding, the latest demand for Adult and Childrens' services and replacement savings which are to be found.</p> <p>Overall, we have concluded that the Council had suitable arrangements during the course of the year for managing this risk however, the Council's financial position remains high risk as at 31 March 2017 and is dependent on delivery of recurrent savings.</p>

## Key findings

Significant risk	Work to address	Findings and conclusions
<p><b>Service transformation projects</b></p> <p>The Council's has embarked on a programme delivering significant changes to the way in which services are delivered. The programme requires a number of key projects and investments, which are significant both in scale and financial terms. There is a risk that the transformational programme does not produce the required level of change and therefore does not deliver the financial savings needed in the required timeframe.</p>	<p>We reviewed the project management and risk assurance arrangements established by the Council in respect of the transformational programme and related significant projects, to establish how the Council is identifying, managing and monitoring these risks against planned outcomes.</p>	<p>The Council has started the transformational programme by scoping some of the key areas to implement transformation. The Council are planning to manage existing demand creating efficiencies as well as look to reduce anticipated demand in the future. The transformational programme remains at a very early stage with much to do to deliver the required transformational programme which hope to deliver savings the Council requires in the medium term. The Council has started working on an organisational plan and it is expected that this will contain a finalised transformational plan.</p> <p>Of the areas identified for transformation, the most advanced is linked to the adult social care which has the most significant budget pressures. The Council has started initial discussions with health partners in parts of the County to collaborate more with the view to change how health and social care for adults is managed and delivered.</p> <p>The Council is planning to scope a number of themes and areas where services require transformation. There is still much to be done to deliver the required transformational programme and savings. In part reflecting the early stage of the transformational programme, the Council needs to implement more robust arrangements for monitoring and managing the transformational project with timelines agreed. Given the financial pressures, it is imperative that the Council continues to make financial savings in the coming years and the transformational programme is key to this.</p> <p>The Council needs to accelerate the pace of the programme to allow consultation and planning of savings in advance of the required delivery time. It is recommended that the Council has a framework with key milestones for monitoring progress to allow consultation and planning of savings in advance and it has detailed delivery plans for savings required in the medium term and by when.</p> <p>The Council has made some progress in scoping the areas for transformational change, however this remains a significant risk. There still is significant work to be done in this area to realise the savings needed. As at 31 March 2017, the transformational plan had not been finalised. Whilst the Council has made arrangements for delivering transformational change in year, methods for monitoring progress were still to be determined and there is a need to agree timelines for delivery. The production of the transformational plan will be a key step and hopefully will assist in the transformational projects progressing at a faster pace which is needed to deliver the required savings in the medium term.</p>

**Significant difficulties in undertaking our work**

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

**Significant matters discussed with management**

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

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.



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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"><li>We are considering whether to issue a public interest report as requested by the Objector to the 2015-16 accounts. As at 8 August 2017 we have not identified any other matters that would require a public interest report to be issued.</li></ul>
2.	Written recommendations	<ul style="list-style-type: none"><li>We have not made any written recommendations that the Council is required to respond to publicly</li></ul>
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"><li>We have not used this duty</li></ul>
4.	Issue of an advisory notice	<ul style="list-style-type: none"><li>We have not used this duty</li></ul>
5.	Application for judicial review	<ul style="list-style-type: none"><li>We have not used this duty</li></ul>

We have received objections to the 2015/16 accounts and the 2016/17 accounts which are being considered, our work in relation to these is ongoing.

---

## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	105,281	TBC
<b>Total audit fees (excluding VAT)</b>	<b>105,281</b>	<b>TBC</b>

We have received an objection to the 2015/16 accounts in relation to payments to Devon Partnership Trust for delegated responsibilities under the Care Act 2014. Our work is ongoing in relation to this and the estimated fee to date is £15,000. We also have received another objection in relation to the 2016/17 accounts

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of Teachers' Pension end of year certificate	4,200
• Certification of School-centred initial teacher training (SCITT) annual returns	3,700
• Certification of Local Transport Plan Major Projects grant return	4,000
<b>Non-audit services total</b>	<b>11,900</b>

# Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council’s auditor and have ensured that appropriate safeguards are put in place

Service provided to	Fees	Threat?	Safeguard
Certification of Teachers’ Pension return for Devon County Council	4,200	<ul style="list-style-type: none"><li>Self- interest</li></ul>	This is potentially a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total planned fee for the audit (£105,281) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.
Certification of Local Transport Plan Major Projects grant return	4,000	<ul style="list-style-type: none"><li>Self- interest</li></ul>	This is potentially a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total planned fee for the audit (£105,281) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.
Certification of School Centred Initial Teacher training grant for Devon County Council	3,700	<ul style="list-style-type: none"><li>Self- interest</li></ul>	This is potentially a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total planned fee for the audit (£105,281) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.
TOTAL	£11,900		

# Section 6: Communication of audit matters

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01.	Executive summary
02.	Audit findings
03.	Value for Money
04.	Other statutory powers and duties
05.	Fees, non audit services and independence
06.	Communication of audit matters

# Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues 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

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

- A. Action Plan
- B. Audit Opinion






# A. Action plan

Rec no.	Recommendation	Management response	Implementation date and responsibility
1 ●	The Council should review its year end procedures to ensure all transactions before and after the year end are considered as part of the overall reconciliation of the cash and cash equivalents balance.	All balances are considered as part of the reconciliation. The change in procedures due to the earlier closedown timetable has made this more difficult and did lead to a departure from best practice. However, this did not lead to an increased risk of misstatement due to fraud.	Head of Financial Management and Processes Ongoing
2 ●	All suspense accounts should be cleared to zero at the year end	All suspense accounts are managed and controlled and will continue to be, however, with the earlier close timetable it is not pragmatic to expect all accounts to be cleared to zero and provided all accounts are managed and reviewed and balances insignificant then this should be adequate.	
4 ●	We recommend that the cash in transit balances are clearly identified on the bank reconciliation at month end including which account they relate to and that procedure notes are updated to fully document the accounts held, the purpose for them and the processing procedures in place for each.	Agreed	Head of Exchequer, CFCS & VAT  December 2017
4 ●	The Council should review the controls over P2P system to ensure that there is appropriate segregation of duty	P2P Access is controlled independently by ICT. Users rights are defined by various Active Directory (AD) groups on their network accounts. These can only be amended by ICT as the P2P team have no access to network accounts.  There is a generic requestor group which everyone belongs to, allowing PO's to be raised. PO approval is controlled by 6 different AD Groups, each conferring a different authorisation limit.  While there is currently no formal monitoring process to identify documents processed by the system managers, a listing has been provided for audit. This will be produced regularly in future, reviewed by management and included in the audit working papers	Head of Financial Management and Processes Ongoing




## Priority

- High – Significant effect or risk
- Medium – Effect/ risk
- Low – Best practice

## A. Action plan

Rec no.	Recommendation	Management response	Implementation date and responsibility
5 	The Council should introduce a framework with key milestones for monitoring progress of its transformational programme and ensure that it has detailed delivery plans for savings and when they are realistically to be achieved	Agreed for Transformational Programme.	Head of Organisational Development December 2017
6 	The Council should refresh its medium term financial strategy and budget to take into account new social care funding and the latest demand for Adult and Children's services.	As discussed this is already underway	
46 	Whilst progress has been made with regard to reporting variances and non delivery of savings, the Council should increase its transparency providing further details in terms of reporting delivery of planned savings	Agreed	Senior Assistant County Treasurer Ongoing

### Priority

-  High – Significant effect or risk
-  Medium – Effect/ risk
-  Low – Best practice

# B: Draft Audit opinion

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEVON COUNTY COUNCIL

We have audited the financial statements of Devon County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by the 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.

### Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the County Treasurer 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

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

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

# B: Draft Audit opinion (continued)

**Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Authority and auditor**

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

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Elizabeth Cave  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
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XX September 2017



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CT/17/67  
Audit Committee  
14<sup>th</sup> September 2017

## EXTERNAL AUDIT – AUDIT FINDINGS REPORT FOR THE PENSION FUND 2016/17

### Report provided by Grant Thornton via the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

**Recommendation:** that the Committee notes the attached report and findings within.

1. The attached report, provided by the Council's External Auditors (Grant Thornton), sets out the findings arising from the audit of the Pension Fund for 2016/17.
2. It describes the work that the external auditors have undertaken to address the risks identified in the Audit Plan, which was presented to the Audit Committee in March 2017.

Mary Davis  
Electoral Divisions: All  
Local Government Act 1972  
List of Background Papers

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Background Paper: None





# The Audit Findings for Devon Pension Fund

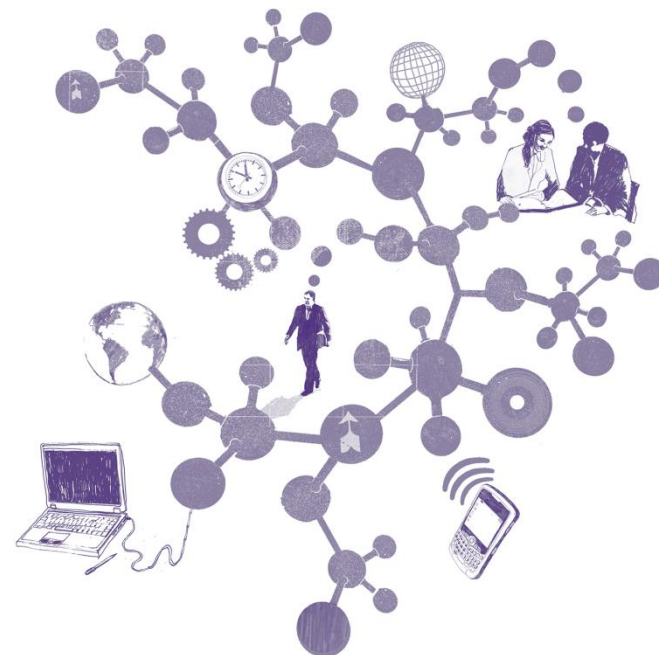
**Year ended 31 March 2017**

5 September 2017

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5 September 2017

Dear Members of the Audit Committee

**Audit Findings for Devon Pension Fund for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Devon Pension Fund, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Elizabeth Cave

Director

**Chartered Accountants**

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## Appendices

A Action plan

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# Section 1: Executive summary

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01.	Executive summary
02.	Audit findings
03.	Fees, non audit services and independence
04.	Communication of audit matters

**Purpose of this report**

This report highlights the key issues affecting the results of Devon Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

**Introduction**

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 16 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Awaiting two bank confirmations on short term deposits
- Management review and standard quality control procedures
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

**Key audit and financial reporting issues**

**Financial statements opinion**

We have identified no adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements and the audited financial statements for the year ended 31 March 2017 recorded net assets of £3,929k.

The key messages arising from our audit of the Fund's financial statements are:

- the draft financial statements and the supporting working papers were prepared to a good standard.
- no significant issues have been identified and only one misclassification amendment has been made as a result of our audit

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

**Controls**

**Roles and responsibilities**

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

**Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

**The way forward**

Matters arising from the financial statements audit of the Fund have been discussed with the County Treasurer and Deputy County Treasurer.

**Acknowledgement**

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

**Grant Thornton UK LLP**  
**August 2017**

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# Section 2:    Audit findings

01.	Executive summary
02.	Audit findings
03.	Fees, non audit services and independence
04.	Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that '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'.

As we reported in our audit plan, we determined overall materiality to be £33,724k (being 1% of net assets as at 31 March 2016). We have considered whether this level remained appropriate during the course of the audit and as a result of the increase in net assets over the course of the year we revised our overall materiality to £39,178k (being 1% of net assets as at 31 March 2017).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,959k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. We have revised the materiality for management expenses.

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures	£500,000
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£25,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)



# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Devon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition;</li><li>• opportunities to manipulate revenue recognition are very limited; and</li><li>• the culture and ethical frameworks of local authorities, including Devon County Council as the administering body, mean that all forms of fraud are seen as unacceptable.</li></ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed</p> <ul style="list-style-type: none"><li>• review of entity controls</li><li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li><li>• review of accounting estimates, judgements and decisions made by management</li><li>• review of unusual significant transactions.</li></ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Level 3 Investments (Valuation is incorrect)</b></p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"><li>• We have updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund</li><li>• We have performed walkthrough tests of the controls identified in the process.</li><li>• For a sample of investments, tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition reconciling those values to the values at 31st march with reference to known movements in the intervening period.</li><li>• Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached.</li><li>• Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.</li><li>• Reviewed the competence, expertise and objectivity of management experts used.</li></ul>	<p>Our audit work has not identified any significant issues in relation to the risks identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.</li></ul>	Our audit work has not identified any significant issues in relation to the risks identified.
Investment purchases and sales	Investment activity not valid.  Investment valuation not correct.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.</li></ul>	Our audit work has not identified any significant issues in relation to the risks identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Investment values – Level 2 investments</b>	Valuation is incorrect (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified.
<b>Contributions</b>	Recorded contributions not correct. (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Controls testing over occurrence, completeness and accuracy of contributions.</li> <li>Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified.
<b>Benefits payable</b>	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Controls testing over occurrence, completeness and accuracy of contributions.</li> <li>Tested a sample of individual pensions in payment by reference to members files.</li> <li>Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> <li>Complete an analytical review and rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified.

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member data	Member data not correct. (Rights and Obligations)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>Controls testing over annual/monthly reconciliations and verifications with individual members.</li><li>Tested a sample of changes to member data made during the year to source documentation.</li></ul>	Our audit work has not identified any significant issues in relation to the risks identified.

Pension

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## Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the Pension Fund is a going concern.

## Significant matters discussed with management

There were no significant matters that were discussed during the course of the audit.

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Contributions are accounted for on an accrual basis, not simply when cash payments are made or received.	We have no issues to report over the: <ul style="list-style-type: none"> <li>• Appropriateness of the policy relating to contributions</li> <li>• Adequacy of disclosure of accounting policy.</li> </ul>	●
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>– Valuation of level 3 investments</li> <li>– Accruals</li> <li>– Pension fund liability</li> </ul>	We have no issues to report over the: <ul style="list-style-type: none"> <li>• Appropriateness of policies under relevant accounting framework</li> <li>• Extent of judgements involved</li> <li>• Adequacy of disclosure of accounting policies</li> </ul>	●
<b>Going concern</b>	The County Treasurer, s151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Fund's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	●
<b>Other accounting policies</b>		We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.	●

## Assessment

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# 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
1.	Matters in relation to fraud	<ul style="list-style-type: none"><li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li></ul>
2.	Matters in relation to related parties	<ul style="list-style-type: none"><li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li></ul>
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"><li>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.</li></ul>
4.	Written representations	<ul style="list-style-type: none"><li>A standard letter of representation has been requested from the Fund, which is included in the Audit Committee papers.</li></ul>
5.	Confirmation requests from third parties	<ul style="list-style-type: none"><li>We requested from management permission to send confirmation requests to fund managers and banks. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li></ul>
6.	Disclosures	<ul style="list-style-type: none"><li>Our review found no material omissions in the financial statements.</li></ul>
7.	Matters on which we report by exceptions	<ul style="list-style-type: none"><li>We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We are still to review the annual report.</li></ul>

# Internal controls

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)



# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"><li>In the prior year, review of year end journals identified a large number of journals above the threshold of £200,000 which did not require authorization in the system by a separate individual.</li></ul>	<ul style="list-style-type: none"><li>The Council implemented a control to ensure that journals above the threshold of £200,000 are reviewed and authorized by a separate individual.</li></ul>

# Misclassifications 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.

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Misclassification	19,323	Investments	Review of the classification of investments identified a Level 2 investment that has been incorrectly classified as Level 1 in the draft financial statements.

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# Section 3: Fees, non-audit services and independence

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01.	Executive summary
02.	Audit findings
03.	Fees, non-audit services and independence
04.	Communication of audit matters

Fees

	Proposed fee £	Final fee £
Pension fund audit	28,603	28,603
<b>Total audit fees (excluding VAT)</b>	<b>28,603</b>	<b>28,603</b>

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group/Council. The table below summarises all other services which were identified.

We confirm that no non-audit or audit related services have been undertaken for the Fund.

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## Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

# Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues 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

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

A. Audit Opinion

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# A: Audit opinion

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEVON COUNTY COUNCIL

We have audited the pension fund financial statements of Devon County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state 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.

### Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the County Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. Opinion on the pension fund financial statements

### In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

### [Signature]

Elizabeth Cave for and on behalf of Grant Thornton UK LLP,  
Appointed Auditor

Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

XX September 2017





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CT/17/69  
Audit Committee  
14 September 2017

## **AUDIT PROGRESS REPORT** **Report of the County Treasurer**

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

**Recommendation:** that the Committee notes the progress being made by management to address weaknesses identified through the internal audit process.

1. At the June 2017 Audit Committee members were provided with the Annual Internal Audit report for 2016/17 for the Council. Appendix A of this report provided a summary of the audits undertaken during 2016/17, along with the audit assurance opinion.
2. This report updates the Committee on the “improvement required” issues identified in Appendix A to the annual report.
3. The attached report sets out the progress made by management in implementing agreed actions to address the areas of weakness identified.

Mary Davis  
Electoral Divisions: All  
Local Government Act 1972

### List of Background Papers

Contact for Enquiries: Robert Hutchins  
Tel No: (01392) 382437 Larkbeare House

Background Paper Date File Ref  
Nil

There are no equality issues associated with this report.





devon **audit** partnership

## Internal Audit Report

Follow Up Report on  
Areas Requiring  
Improvement

Devon County Council

*September 2017*



**Auditing for achievement**

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## **Devon Audit Partnership**

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The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [robert.hutchins@devonaudit.gov.uk](mailto:robert.hutchins@devonaudit.gov.uk)

## **Confidentiality and Disclosure Clause**

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This report is protectively marked in accordance with the government security classifications . It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it

## **Introduction**

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At the June 2017 Audit Committee, Members were provided with the Annual Internal Audit report for the Council for the previous financial year (2016/17). Appendix 4 of that report provided a summary of the audits undertaken during 2016/17, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was been provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified; where an opinion of “improvements required” was provided then issues were identified during the audit process that required attention. We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

This report updates the Audit Committee on the “improvements required” areas highlighted in the Annual Report. Devon Audit Partnership has completed follow up reviews, where practical, and the results from this process are contained in this report at Appendix A.

## **Assurance Statement**

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Our assurance opinion remains as reported in our Annual Audit Report 2016/17 as ‘significant assurance’.

## **Progress Impact Assessment**

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In our opinion the progress made means that previously identified risks are being reduced or mitigated where appropriate.

Improvements in the areas affecting operational and strategic risks are progressing. There remains several areas where progress is ongoing and as yet risks have not been fully mitigated or we are not in a position to provide assurance that they have. Some of these areas (eg Accounting for VAT in Partnerships, Residential / Nursing Commissioning Arrangements) will be subject to further examination later in the year as part of our planned work or the issues raised have been taken into account in developments within the service area.

Changes in operational arrangements may result in previously agreed action plans becoming redundant or incorporated into new arrangements in a different method. An example of this is with regard the risk of inappropriate or inaccurate submissions (HR - Absence Management & Recording) remaining until tendering for the new HRMS system is completed and the new HRMS system installed along with the introduction of self service.

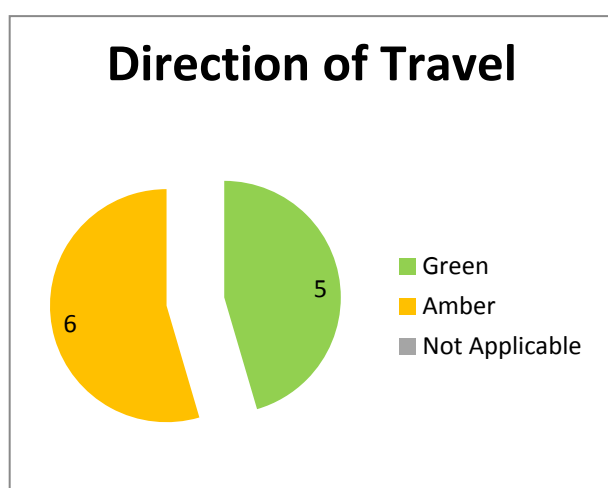
In addition, where the agreed actions are set for future dates and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

This follow up activity was an opportunity to facilitate, review and expedite progress for individual audits, to inform management of the current position and to integrate the outcomes into the organisation’s strategic management.

## Progress

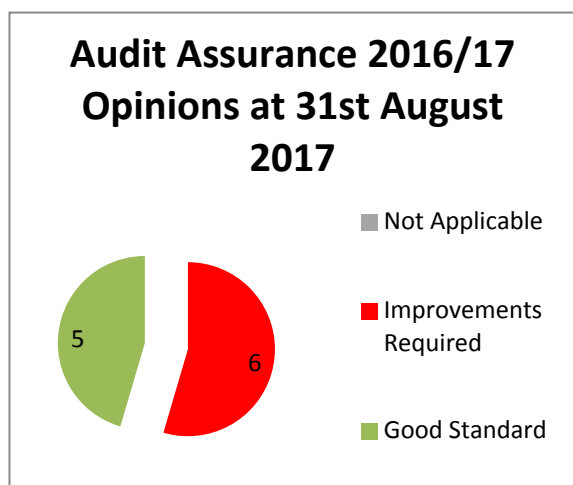
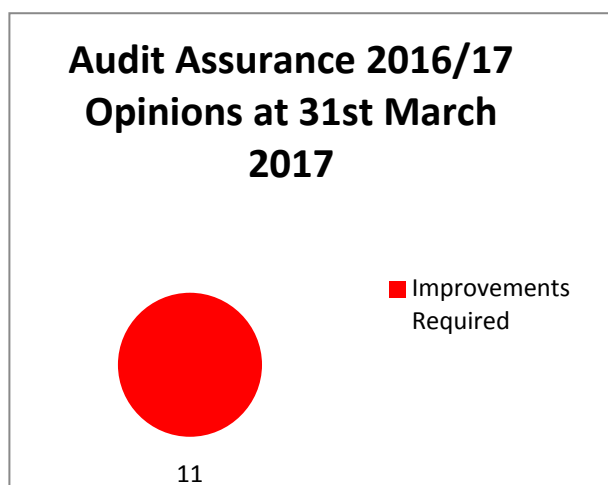
Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.

For a number of audits work is ongoing to meet the original timescales agreed for completion of management actions or audit follow up work is planned for later in the financial year, in these instance the original assurance opinion remains. For these audits, a follow up review will be completed at an appropriate time, and results fed back to senior management and the Audit Committee.



### Direction of Travel Key

**Green** – action plan implemented or being implemented within agreed timescales;  
**Amber** – implementation of action plan not complete in all areas or overdue for key risks;  
**Red** – implementation of action plan not complete and we are aware progress on key risks is not being made.  
**N/A** – follow up not appropriate at this time / opportunity for progress has been limited





## **Internal Audit Coverage and Results**

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Overall we can report that progress is being made against the agreed recommendations following our initial audit and this is shown in the direction of travel chart above and in Appendix A of this report. A significant number of opinions remain unchanged at this time although this does not necessarily reflect lack of action.

It should be noted that in a number of instances action is being taken to address the issues identified, but this is ongoing and therefore we have been unable to form a new overall assurance opinion. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations have been completed, but this is as expected.

Some agreed actions have not been implemented for a variety of reasons including strategic and operational changes in the service area and the need to prioritise resource in other directions. We shall work with management in determining any revision to implementation dates to ensure that where necessary actions are taken as promptly as is possible to address the risks identified.

During our initial audit work we have made reference to areas where risk exists; however, in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available (absence management & recording). In such cases management agree to accept this risk, and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully appreciate that the risk is identified, recognised and management are working resolve the issues

Appendix A of this report details those audits at the end of 2016/17 identified as 'improvements required'. The appendix shows the current (updated) assurance opinion following our follow up work, and a 'direction of travel'. We have also provided some more detailed commentary on progress being made. Appendix B provides a definition of the assurance opinion categories.

## **Annual Governance Statement**

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The conclusions of this report provide further internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

These should be considered along with the conclusions from the Annual Audit Report 2016/17 presented to Audit Committee in June 2017.

**Robert Hutchins**  
**Head of Audit Partnership**

## Process

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For each service area where an overall audit opinion of “improvements required” was provided at the end of 2016/17 we completed a follow up review. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependent upon the priority of the agreed recommendation.

For ‘high’ priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made, plus some evidence to support this (as above) plus, and depending upon the nature of the recommendation, we considered a physical visit to confirm that the recommendation was operating as expected and that the identified risk had been reduced to an acceptable level.

For ‘medium’ priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this. For example, if the recommendation was for a monthly imprest reconciliation to be produced and signed as correct, then a copy of the most recent reconciliation was required.

For ‘low’ priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made.

Following the completion of our review we considered the progress made against the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified, and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work.

## Summary of Audit Follow Up and Findings 2016/17

### Risk Assessment Key




LARR – Local Authority Risk Register score Impact x Likelihood = Total & Level  
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management  
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available




### Direction of Travel – Key






Green – action plan implemented or being implemented within agreed timescales;  
 Amber – implementation of action plan not complete in all areas or overdue for key risks;  
 Red – implementation of action plan not complete and we are aware progress on key risks is not being made.

\* report recently issued, opportunity for progress has been limited

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Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	
Corporate Services - Finance					
Accounting for VAT in Partnerships	ANA - Medium	Improvements Required	Improvements Required	Work is ongoing to meet the original timescales agreed for completion of management actions of September 2017. To be reviewed and reported upon at November Committee Meeting.	
Corporate Services - Human Resources (HR)					
HR - Absence Management & Recording	ANA - Medium	Improvements Required	Improvements Required	Improvements have been actioned against the majority of recommendations. However, the risk of inappropriate or inaccurate submissions remains until tendering for the new HRMS system is complete and self service is introduced.	
HR - Consultants Follow Up	ANA - Client Request	Improvements Required	Improvements Required	A new & comprehensive Hiring Temps, Agency Workers, Interims & Consultants Policy has been devised which incorporates the recommendations from the previous audit and also the requirements of the new “off payroll working” legislation (IR35). This was issued in April 2017. A further follow-up audit is planned	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	
				for later in the year to ensure that these new processes are being complied with by Services. Thus the assurance opinion remains as "improvements required" until the audit has been completed.	
HR - Ex employee records (data protection compliance)	ANA - Client Request	Improvements Required	Good Standard	The majority of recommendations have been implemented satisfactorily. Further improvements to controls are planned as part of a new HRMS system currently under review and a few are in progress in line with further legislation changes which come into force in 2018.	
<b>Corporate Services - IT Audit</b>					
Data Security - NPS Follow Up	ANA - Client Request	Improvements Required	Improvements Required	The main area of concern remains the lack of regular penetration testing conducted in respect of the data centre within which the Norfolk Property Services C2 solution is hosted. This, and a limited number of less significant risks are to be discussed during September 2017 in order that appropriate mitigating actions are identified or, that it is agreed that the level of risk is acceptable in respect of operational requirements.	
CareFirst 16/17	ANA - High	Improvements Required	Improvements Required	The identification of formal governance structures to administer, maintain and develop social care business solutions, and key interdependencies, is required to better safeguard both information and financial assets. Internal Audit continue to engage with the Eclipse project team in order to attempt to foster improvements within the new system. The Corporate Information Governance Team should also play a key role in improving asset ownership within the social care area, with particular emphasis on achieving compliance with the pending Data Protection Bill.	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	Direction of Travel RAG Score
People					
Residential Care Banding	ANA - High	Improvements Required	Good Standard	Recommendations made have been implemented.	
Residential / Nursing Commissioning Arrangements	ANA - Client Request	Improvements Required	Improvements Required	A meeting to discuss the action plan is scheduled to take place in September. Further update will be provided at the next Audit Committee meeting in November.	 *
Devon School Phase Associations	ANA - High	Improvements Required	Good Standard	Good progress has been made by management in addressing the matters identified in the original audit. The majority of agreed actions have taken place considerably reducing the level of risk. The County Council along with other local authorities is awaiting information from the DoE on the National Funding Formula. The information contained in this may impact on future financing of the Assocaitions in their current form.	
High Cost Child Placements	ANA - Client Request	Improvements Required	Good Standard	Changes in the approval process have been made and the Scheme of Delegation amended to reflect the new arrangements. Other recommendations made have either been actioned or are in the process of being actioned.	
Place					
Risk Management	ANA - Medium	Improvements Required	Good Standard	Actions have taken and are ongoing against the recommendations made within the audit report. A report was presented to Leadership Group in June 2017 setting out some key actions. In particular:-  Leadership, Management and Governance Arrangements The County Treasurer has now become Lead Officer for Risk	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	
Page 90				<p>Management. The risk management process will become more formal with a report taken to each Scrutiny Committee setting out the risks for that service area; a composite report will then go to Audit Committee highlighting the top 10 risks faced by the Council and the mitigating actions.</p> <p>Risk Management Processes All risks will be captured (including Public Health risk). Standardisation of the description and assessment of risks will take place. All risks will be reviewed at least annually.</p> <p>Roles and Responsibilities The Service Level Agreement with Devon Audit Partnership will be extended to include the governance of Risk Management.</p>	

## Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

## Confidentiality under the Government Security Classifications

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Marking	Definitions
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.



## **Statement of Accounts & Annual Governance Statement 2016/17 Report of the County Treasurer**

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

### **1. Recommendations – it is recommended that members:**

- 1.1. Approve the Letters of Management Representation for the Devon Pension Fund and the County Council;
- 1.2. Approve the Statement of Accounts for 2016/17;
- 1.3. Approve the Pension Fund Statement of Accounts for 2016/17;
- 1.4. Approve the preparation of both the Statement of Accounts for the Pension Fund and County Council on a going concern basis; and
- 1.5. Note that there are no significant events since the Audit Committee meeting in June that would require an amendment to the Annual Governance Statement.

### **2. Background**

- 2.1. The purpose of this report is to ask Members to approve the Letters of Management Representation and the Statement of Accounts for 2016/17.
- 2.2. CIPFA's Code of Practice on Local Authority Accounting introduced two significant changes to the way information is presented in the financial statements:
  - the structure of the Comprehensive Income and Expenditure Statement (CIES); and
  - the introduction of the Expenditure and Funding Analysis
- 2.3. Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis now include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

### **3. Key Messages**

- 3.1. The format of the Comprehensive Income and Expenditure Statement (CIES) reflects the Authority's reporting segments in 2016/17 - i.e. People, Place, Corporate Services and Non Service Directorate (consistent with the Authority's budget book and budget monitoring reports).
- 3.2. The Authority has a negative Balance Sheet as at 31st March 2017 which means that the Authority's liabilities are £304 millions greater than its

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assets (£106 millions at 31st March 2016). Although it may appear that this is a concern it is not as the Pension Liability of £1,175 millions does not represent an immediate call on the Authority's reserves and is a snapshot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

- 3.3. No new borrowing has taken place this year with capital expenditure due to be met from borrowing being financed from internal resources.
- 3.4. At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at £56.1 millions. During the year earmarked reserves have increased by a net £15.3 millions to £71.4 millions. The reasons for this overall increase are explained in the Report of the Treasurer and Chief Executive.
- 3.5. The Authority has budgeted to use £11.6 millions from the Budget Management Reserve to support its revenue expenditure in 2017/18.
- 3.6. External audit has reported one material adjustment - to reclassify £30 millions from Cash and Cash Equivalents to Short Term Investments because the notice period on the deposit was 6 months. The notice period would have to be no more than 90 days to be classified as Cash and Cash Equivalents.
- 3.7. In addition, external audit reported that bank transactions on the last day of the year were posted to an uncleared suspense account. The clearance of this suspense account resulted in reductions to creditors of £2.4 millions with corresponding reductions to bank balances of £1.1 millions and debtors of £1.3 millions.
- 3.8. The audit is still not complete and as a result our auditors may request further small changes to the Statement of Accounts. Should this be the case these changes will be disclosed at the Audit Committee.

## **4. Letters of Representation**

- 4.1 In order to provide assurance to our auditor's that they have received complete and accurate information the Audit Committee is asked to provide letters of representation. The Draft Letters of Management Representation relating to the Devon Pension Fund and the County Council are attached in the appendices.

## **5. Annual Governance Statement**

- 5.1 The Statement was approved by the Chief Executive and the Chairman of the Audit Committee at the Audit Committee meeting on 30<sup>th</sup> June 2017. There have not been any significant events since June that would require any amendment to the Statement and its re-approval.

## **6. Conclusion**

- 6.1 The Committee is recommended to approve the Statement of Accounts and the letters of representation contained in the appendices to this report.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries: Angie Sinclair  
Tel No: (01392) 38 0711 Room 196

<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
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There are no equality issues associated with this report

### **Draft management representation letter – Devon Pension Fund**

14<sup>th</sup> September 2017

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

Dear Sirs

#### **Devon Pension Fund: Financial Statements for the year ended 31<sup>st</sup> March 2017**

This representation letter is provided in connection with your audit of the financial statements of Devon Pension Fund ('the Fund') for the year ended 31<sup>st</sup> March 2017 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31<sup>st</sup> March 2017, and of the amount and disposition at that date of its assets and liabilities in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') and applicable law.

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

#### **Financial Statements**

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.
2. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.
7. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
8. Except as disclosed in the financial statements:
  - there are no unrecorded liabilities, actual or contingent;
  - none of the assets of the Fund have been assigned, pledged or mortgaged; and
  - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
10. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
11. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
12. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.
13. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

## **Information Provided**

14. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

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- additional information that you have requested from us for the purpose of your audit; and
  - unrestricted access to persons from whom you determined it necessary to obtain audit evidence.
15. We have communicated to you all deficiencies in internal control of which management is aware.
16. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
17. All transactions have been recorded in the accounting records and are reflected in the financial statements.
18. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:
- management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
19. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.
20. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
21. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
22. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
23. We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.
24. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 14<sup>th</sup> September 2017.

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Signed on behalf of the Council as the administering body of the Pension Fund

Name	Cllr John Mathews
Position	Chairman of the Audit Committee
Date	14 <sup>th</sup> September 2017

Name	Mary Davis
Position	County Treasurer
Date	14 <sup>th</sup> September 2017

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## Appendix 2

### **Draft management representation letter – County Council**

14th September 2017

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

Dear Sirs

#### **Devon County Council: Financial Statements for the year ended 31<sup>st</sup> March 2017**

This representation letter is provided in connection with the audit of the financial statements of Devon County Council for the year ended 31<sup>st</sup> March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

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

#### **Financial Statements**

1. We have fulfilled our responsibilities for the preparation of 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 2016/17 ("the Code"); which give a true and fair view in accordance therewith.
2. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



6. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
7. Except as disclosed in the financial statements:
  - there are no unrecorded liabilities, actual or contingent;
  - none of the assets of the Council has been assigned, pledged or mortgaged; and
  - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
8. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
10. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
11. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
12. We have considered the adjusted misstatements, misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
13. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
14. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
15. We are satisfied that the material judgements in relation to the accounting treatment of schools are appropriate and in accordance with the Code.

## **Information Provided**

16. We have provided you with:

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- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of your audit; and
  - unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
17. We have communicated to you all deficiencies in internal control of which management is aware.
18. All transactions have been recorded in the accounting records and are reflected in the financial statements.
19. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
20. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
- management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
21. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
22. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
23. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
24. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## **Annual Governance Statement**

25. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that

we are not aware of any significant risks that are not disclosed within the AGS.

## **Report of the Treasurer and Chief Executive**

26. The disclosures within the Report of the Treasurer and Chief Executive fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

## **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 14<sup>th</sup> September 2017.

Signed on behalf of the Council

Name	Cllr John Mathews
Position	Chairman of the Audit Committee
Date	14 <sup>th</sup> September 2017

Name	Mary Davis
Position	County Treasurer
Date	14 <sup>th</sup> September 2017



## **Corporate Risk Management Arrangements - Changes to the Management of Risk**

Report of the County Treasurer

**Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.**

**Recommendation: It is recommended that:**

**The Audit Committee note the developments in the Corporate Risk Management arrangements as set out below.**

### **1. Introduction**

- 1.1 At a recent Leadership Group meeting it was agreed that the County Treasurer would become the Lead Officer for Risk Management; this coincided with an Internal Audit review of the Risk Management Function. In summary, the view of the audit report was that Risk Management has become a more marginal activity, rather than a necessary part of service planning that helps to identify and manage potential risks. Risk Management (like many other functions) has had to deal with staffing reductions and this has probably reduced its effectiveness and impact across the Council.
- 1.2 This report summarises the key recommendations of the Internal Audit report, and the action being taken. These actions have been agreed by Leadership Group and cover four key areas as follows:-
  - Leadership, Management and Governance arrangements;
  - Roles and Responsibilities;
  - Risk Management Processes; and
  - Risk Management Framework.

### **2. Leadership, Management and Governance Arrangements**

- 2.1 Recently there has been some confusion over the respective Risk Management roles of the Audit Committee and the Corporate Services Scrutiny Committee, probably linked to the use of the word “corporate” in different contexts. The Internal Audit made three recommendations in this area - the Council should ensure that there is a clear distinction between the Risk Management roles and responsibilities for the Council’s Committees; that the profile of Risk Management is raised across the organisation; and that members of the risk management group are given training to increase their knowledge and skills.
- 2.2 To address this, the risk management process will need to become more formal and, annually, as part of the same Committee cycle, a report should be taken to each Scrutiny Committee that sets out the risks for that Service Area. These risks will be reviewed by the appropriate Scrutiny Committee and then collated into a composite report going to the Audit Committee which will highlight the top 10 risks faced by the Council and the mitigating actions. The Audit Committee should then satisfy itself as to the process, the equivalence of risk assessment and the effectiveness of mitigation.

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- 2.3 The membership of the officer led Risk Management Group will be reviewed to ensure the right representative from each Chief Officer grouping of services is obtained. The Group role is to collate and monitor risks, ensure consistency of assessment, provide peer challenge and prepare the Risk Registers that will go to Scrutiny Committees; training and guidance will be required to enable this role to be performed effectively. Meetings will be chaired either by the County Treasurer or the Head of Devon Audit Partnership.

## **3 Risk Management Processes**

- 3.1 The Audit report made a number of more detailed recommendations. These will be implemented to give the following outcome:-
- All risks would be captured including those that lie with Public Health and the Devon Pension fund that are currently not part of the main risk register.
  - There would be more standardisation of the description and assessment of risks.
  - All risks would be reviewed at least once a year. However, this would not prevent some risks being updated if circumstances changed or new risks being added or deleted as events took place.
  - Service areas would need to take account of risk that resided with third parties such as partners and contractors if that risk could have a significant adverse impact on service delivery.

## **4. Risk Management Framework**

- 4.1 The Audit report compared the risk management framework in Devon with that of other Local Authorities. It suggested that Devon should follow the lead of many other councils and adopt a “three lines of defence model”. This splits risk management into three distinct functions –

The ownership and management of risks  
The oversight of risk  
The independent assurance of risk

- 4.2 By adopting this framework Service Managers, through service plans, and cabinet members, through their portfolios, would become the owners and managers of risk. CLG and the Risk Management Group would have oversight of risk and the Audit Committee would provide an independent assurance on the process for managing risk.
- 4.3 The Audit report also suggested that this tighter definition of the risk management function is matched by a streamlining of the risk management policy so that it is condensed into a shorter, sharper policy.

## **5. Roles, Responsibilities and Future Support**

- 5.1 The staff support given to the risk management function has gradually reduced over the years. To address this, the Service Level Agreement with Devon Audit Partnership has extended to include the governance of Risk Management arrangements.
- 5.2 Appendix 1 to this report sets out the tasks that DAP are expected to undertake. The administration of risk management is to remain with the existing DCC officer.

## **6. Conclusion and Recommendations**

- 6.1 The Public Sector faces considerable risks and challenges and the world of Local Government is not immune from this. Recent events tell us that fires and floods do happen, and computers and systems do get hi-jacked. We need to be aware of our risks and have a realistic understanding of what we may encounter and how to deal with the impacts. The planned actions in this report will allow the County to improve its Risk Management arrangements.

Mary Davis County Treasurer  
Electoral Divisions: All  
Appendices Appendix A: Risk Management Support





#### Introduction

DAP is well placed to support and facilitate development and improvement in the DCC risk management framework and the effectiveness of the risk management process. This support will assist members, senior management and staff in identifying risks, recognising and recording the "true" risk, mitigation thereof and promote effective monitoring and reporting of those risks.

DAP support will help management to:

- Identify, recognise and understand the risks
- Identify understand and monitor mitigating controls
- Consider the effectiveness of risk mitigation and possible further management action
- Monitor, re-evaluate and report on risks

Further Key objectives will include:

- Support the improvement of a comprehensive risk management framework;
- Improve the use of risk management to an "embedded" status (ALARM rating)
- Support the reporting and understanding of identified risks
- Improve the decision making process through use of risk management
- Support / facilitate the training of members, senior management and staff
- Improve the efficiency and effectiveness of risk management support through the collaboration of resources, systems and knowledge with key partners.
- Promote consistency and effectiveness through the Corporate Risk Management Grp

Progress to an "embedded" status across the organisation will be an evolving process that will require ongoing development over time and at appropriate levels within the organisation. The development of an action plan to improve risk management will be the first priority based on an assessment of the current position, engagement with members and senior management and the support and training / development needs.

In planning the input required in the coming and future years, the attached work plan has been prepared.

Robert Hutchins  
Devon Audit Partnership  
Aug 2017

## DCC – Support for the further development of Risk Management arrangements.

Key task	Measure of Success	Timeline
<p><b>Identification and development of an improvement strategy</b></p> <p><u>What is required?</u>  Determination of key stakeholders (LG9, LG15, Wider Service Heads, Risk Man group, Audit Cttee, Scrutiny etc.)  Identify current understanding and knowledge (stocktake)</p> <p>What do key staff need? How will better risk management help them and their service? (include reports , dashboards, other outputs). How does it help achieve objectives?</p> <p>What do members need? What is the role of Audit and Scrutiny ? how do we minimise duplication and maximise benefit?</p>	<p>Clear definition of key posts / stakeholders involved in the RM process.  Understanding of current expertise / knowledge.</p> <p>Clearer understanding of why senior management "need" risk management – not just because "it is expected of them".  Objectives are achieved.</p> <p>Members "feel" involved and aware of the risks and how these are being treated.</p>	<p>End Sept 2017</p> <p>End of Oct 2017</p> <p>Suggest a survey to gauge current views, with a refresh after 9 months to measure improvement. By March 2018</p>
<p><b>Review of Risk Management framework and process – comparison to other organisations, best practice, how we can link to other partners; understanding our appetite and how this may vary from service to service</b></p> <p><u>What is required?</u>  Best practice – risk management leaders (banking sector to armed forces) – who uses risk man and why.  What public sectors use RM well (e.g. Health, Police, Fire, Ambulance etc.)?</p> <p>Use in local government – are there sector leaders – what does their experience tell us?  Who will benefit from knowing our risks ? (Health, police etc.) How can this be shared? More importantly how do we measure that we are managing risks with partners?</p> <p>What is "appetite" ? Can we set this for the County?</p>	<p>Identification of field leaders – increase knowledge and understanding</p> <p>Linking wider public sector risks. Partners helping us achieve objectives and manage risks.</p> <p>Knowledge of appetite and how it affects objectives.</p>	<p>End of Nov 2017</p> <p>End Nov 2017</p> <p>End Dec 2017</p>

Key task	Measure of Success	Timeline
<b>Development of process of integration of Risk Management into</b> <ul style="list-style-type: none"> <li>• strategic goals</li> <li>• operational business</li> <li>• decision making</li> </ul>		This will need to be "ongoing" and will start from Sept 2017. The full impact of this may not be seen until strategic plans are updated, reflecting the improved approach
<b>Rolling programme of facilitation workshops</b>  <u>What is required?</u> Set up of a training programme  Delivery of informative / interactive workshops Set up "legacy" training  Train new staff / new risk owners – who can then train their staff	Deliver training workshops to, say, 75% of "managers"  Training can be rolled "off the shelf" at any time for future use. Help those trained to train their staff – feature in team meetings / development days etc.	Start in Dec 2017 through Jan 2018
Working with service heads and their direct reports – helping to explain RM; explain what a risk is and how to best describe; ensure controls are the right controls.  <u>What is required?</u> Ensure that service heads know the link between objectives and risk. Can describe a risk (i.e. not the converse of the objective) Can determine what risks can be controlled and therefore design effective controls  Design reporting to aid in identifying controls overheating / in danger of failure	<u>Measure of success?</u> Not making this "an industry".  Keeping it relatively simple, but in enough detail to have added value.  Embedding performance so that "warning lights" can be identified	

Key task	Measure of Success	Timeline
<b>Supporting Corporate Governance Reporting</b>		
<ul style="list-style-type: none"> <li>Audit Committee – attendance and writing and presenting reports</li> </ul> <p><u>What is required?</u> Understanding what the Audit Cttee need. How often, what level of detail. Annual Assurance? Ongoing assurance.</p> <p>Prepare and present reports anticipating questions / area that further info may be required on.</p>	<p><u>Measure of success?</u> Audit committee "understand" their role and add to the RM process. Are "assured" that the RM process works well. Are empowered to ask "sensible and challenging" questions.</p>	
<ul style="list-style-type: none"> <li>Members – input into scrutiny cttees</li> </ul> <p><u>What is required?</u> Help the Cttee determine what they need. How risks affect achievement of objective. Cannot eliminate all risks.</p> <p>Consider how often reports are req'd and what level of detail.</p> <p>Prepare and present reports anticipating questions / area that further info may be required on.</p>	<p><u>Measure of success?</u> Scrutiny committees "understand" their role and add to the RM process. Reports have RM "embedded" and "pre-empt" how risk to objectives. Reports help members "see" the risks to objectives.</p>	
<ul style="list-style-type: none"> <li>CLT &amp; Senior Management – putting risk management back on the agenda</li> </ul> <p><u>What is required?</u> CLT consider risks when making decisions. Not as a "blocker" but as an enabler – enabling them "to drive fast as there are good brakes" CLT understand why risks will affect objectives and the impact that has on service delivery.</p> <p>CLT challenge and support each other</p>	<p><u>Measure of success?</u> Balance between knowing risks and taking risks – CLT understand that they must take risks, but are "informed" about what these are</p> <p>Ultimate aim will be to capture "opportunities" as well as risks</p>	

Key task	Measure of Success	Timeline
<ul style="list-style-type: none"> <li>Corporate Risk Management Grp – help to re-energise the group; get best practice embedded; help new group members understand their role; make the group a "challenge and support" vehicle</li> </ul> <p><u>What is required?</u> As above</p>	<p><u>Measure of success?</u> Group fully understands its role. Group is seen as "adding value" Group takes wider ownership in embedding and promoting RM arrangements. The "culture" of RM is established within DCC.</p>	
<b>TOTAL</b>	<b>135 days</b>	

