



Phil Norrey
Chief Executive

To: The Chair and Members of the
Audit Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

(See below)

Your ref :
Our ref :

Date : 20 March 2018
Please ask for : Dan Looker, 01392 382232

Email: dan.looker@devon.gov.uk

AUDIT COMMITTEE

Wednesday, 28th March, 2018

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

AGENDA

PART I - OPEN COMMITTEE

- 1 Apologies for absence
- 2 Minutes (Pages 1 - 2)
Minutes of the meeting held on 22 November 2017, attached.
- 3 Items Requiring Urgent Attention
Items which in the opinion of the Chair should be considered at the meeting as a matter of urgency.
- 4 Devon County Council External Audit Plan (Pages 3 - 20)
Report of Grant Thornton, attached.
- 5 Devon Pension Fund External Audit Plan (Pages 21 - 38)
Report of Grant Thornton, attached.
- 6 External Audit Progress Report and Update (Pages 39 - 56)
Report of Grant Thornton, attached.
- 7 Internal Audit Plan 2018/19 (Pages 57 - 84)
Report of the County Treasurer, attached.

8 Devon County Council - Control Environment (Pages 85 - 104)

Report of the County Treasurer, attached.

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

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.

Membership
Councillors J Mathews (Chair), I Hall (Vice-Chair), J Berry, J Brazil, E Brennan, R Peart and A Saywell
Declaration of Interests
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.
Access to Information
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.
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In addition, anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chair. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chair or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.
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SatNav – Postcode EX2 4QD

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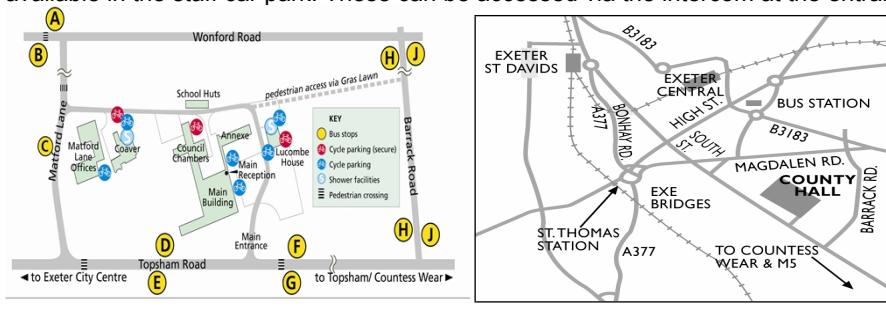
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First Aid

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

Agenda Item 2

AUDIT COMMITTEE
22/11/17

AUDIT COMMITTEE

22 November 2017

Present:-

Councillors J Mathews (Chair), I Hall (Vice-Chair), J Berry, J Brazil, E Brennan, R Peart and A Saywell

* **12 Minutes**

RESOLVED that the Minutes of the meeting held on 14 September 2017 be signed as a correct record.

* **13 Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

* **14 Purposeful Systems**

The members received a verbal update from the Head of Organisational Change on the transformation approach the County Council has embarked on called *Doing What Matters*. During discussion reference was made to the following:

- The programme is being rolled out across the organisation over the next 3 years.
- Local communities are very much part of the redesign process.
- The transformation approach is not included as part of the budget savings for 2018/19 but will be incorporated for 2019/20.
- The need to communicate *Doing What Matters* to all members.
- Grant Thornton fully supported the purposeful systems approach the County Council had adopted.

* **15 Annual Audit Letter 2016/17**

The Committee received the Annual Audit Letter from Grant Thornton (CT/17/101) issuing unqualified opinions on the Council's 2016/17 financial statements; the Pension Fund financial statements; the Annual Governance Statement and "Value for Money" conclusion 2016/17.

Grant Thornton were still unable to certify the accounts as complete pending the outcome of an investigation following objections to the 2015/16 and 2016/17 accounts, but the 2015/16 objection should be resolved by the end of the year, which will then allow the 2016/17 case to be progressed.

It was **MOVED** by Councillor Peart, **SECONDED** by Councillor Berry and

RESOLVED that the report and findings be noted.

* **16 External Audit Update**

The Committee received a Report from Grant Thornton (CT/17/102) setting out the progress made in delivering their responsibilities as external auditors for the Council and giving a summary of relevant emerging national issues and developments.

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

Agenda Item 2

AUDIT COMMITTEE
22/11/17

RESOLVED that the report and findings be noted.

* 17 **Internal Audit Half Year Report 2017/18**

The Committee considered the Report of the County Treasurer (CT/17/99) providing a six month audit opinion of the Council's Internal Audit Service and progress to date against the internal audit plans for 2017/18. The opinion was that an effective framework of control was in place providing reasonable assurance regarding the effective, efficient and economic achievements of its objectives.

The Head of the Devon Audit Partnership reported that the reduction in the percentage of Audit Plans completed was attributable to work now being ongoing for a longer period than it used to be as the emphasis on advice and guidance has grown.

Members expressed concern in relation to the arrangements for young people transitioning to Adult Social Care as well as placement stability for Children in Care.

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

RESOLVED

- (a) that the Children's Scrutiny Committee examine, at the earliest opportunity, the issue of placement stability for Children in Care;
- (b) that the internal audit opinion that the Council's systems contain a satisfactory level of internal control be noted;
- (c) that the satisfactory performance and achievements of Devon Audit Partnership during the first six months of 2017/18 be noted;
- (d) that the Council's continuing commitment to the maintenance and enhancement of an anti-fraud culture be endorsed.

* 18 **Data Security and Residential / Nursing Commissioning - Audit Progress Report**

The Committee received a Report of the County Treasurer (CT/17/100) setting out progress with regard the "improvements required" issues identified in respect of Data Security and Residential / Nursing Commissioning. The Head of the Devon Audit Partnership highlighted the progress made by management in implementing agreed actions to address the areas of weakness identified.

It was **MOVED** by Councillor Peart, **SECONDED** by Councillor Brennan and

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

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

The Meeting started at 2.15 pm and finished at 3.40 pm

Agenda Item 4

Audit Committee
28 March 2018

EXTERNAL AUDIT – UPDATE

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.

1. The attached report, provided by the Council's External Auditors (Grant Thornton), sets out the planned approach for the audit of the County Council for the year ended 31 March 2018.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries:

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Background Paper: None

DRAFT



External Audit Plan

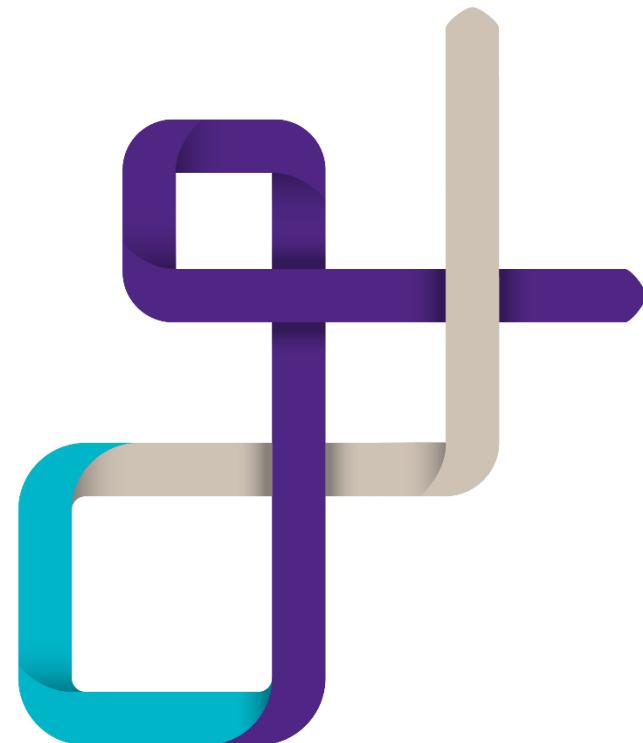
Year ending 31 March 2018

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Devon County Council

6 February 2018

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 <p>Your key Grant Thornton team members are:</p> <p>Page 6</p> <p>Jon Roberts Partner T: 0117 305 7699 E: jon.roberts@uk.gt.com</p> <p>David Bray Senior Manager T: 0117 305 7889 E: david.bray@uk.gt.com</p> <p>Tori Redler Executive T: 0117 305 7744 E: victoria.j.redler@uk.gt.com</p>

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

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

Respective responsibilities

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

Significant and Reasonably Possible Risks	<p>Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • Management over-ride of controls • Valuation of pension fund net liability • Completeness of operating expenses • Valuation of property, plant and equipment • Completeness of employee remuneration <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality	<p>We have determined planning materiality to be £22.7m (PY £20m), which equates to 1.9% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.1m (PY £1m).</p>
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk:</p> <ul style="list-style-type: none"> • The delivery of the Council's medium term financial plan is currently reliant on its transformational programme, which is expected to become operational from 2019/20. We will also look at the delivery of the 2017/18 budget, including performance against the Council's savings targets.
Audit logistics	<p>Our interim visit will take place in January and February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be no less than £105,281 (PY: £105,281) for the Council.</p>
Independence	<p>We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements</p>

Deep business understanding

Changes to service delivery	Changes to financial reporting requirements	Key challenges		
<p>Devolution</p> <p>The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas.</p> <p>Working together with other public sector service providers will allow the Council to deliver better results which will help businesses to improve their productivity.</p> <p>The Council is part of the Heart of the South West's devolution partnership. Following meetings between the partners and the Minister for Devolution a joint committee has been formalised and dates for meetings in 2018 have been established.</p> <p>.</p>	<p>Health and Social Care Integration</p> <p>The Health Economy in Devon is facing unprecedented financial and operational pressures right across the system.</p> <p>Providers are looking have a more integrated approach to care provision in order to help address perennial issues such as delayed transfers of care and disjointed care packages.</p> <p>Our unique insight across the South West will help us keep abreast of these changes.</p>	<p>Accounts and Audit Regulations 2015 (the Regulations)</p> <p>The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.</p> <p>Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.</p> <p>Changes to the CIPFA 2017/18 Accounting Code</p> <p>CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.</p>	<p>Financial pressures</p> <p>Although the Council set a balanced budget for 2017/18, its medium term financial plan showed that significant savings were necessary to maintain this position in future years.</p> <p>Part of this will be achieved through the transformation of the Council's services to align with its purpose, although this is not expected to have a positive impact on the Council's finances until 2019/20. This is just over twelve months away and, given the need to engage with its partners, much work remains to be done in that time</p>	<p>100% Business Rate retention pilots.</p> <p>Central Government has indicated its intention to implement 100% business rate retention following the phasing out of the Revenue Support Grant and invited local councils to apply to be pilot areas.</p> <p>Devon County Council was successful in its application to be a participant in one of these pilot areas.</p> <p>The Council is now looking at pooling arrangements with other councils with due consideration being given to the reporting requirements and the implications for its budget.</p>

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.
- We will consider whether progress has been made to the previously agreed recommendations raised in 2016/17.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Devon County Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk

Reason for risk identification

Key aspects of our proposed response to the risk

Valuation of property, plant and equipment

The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

We will:

- review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- consider the competence, expertise and objectivity of any management experts used
- discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions
- review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding
- test revaluations made during the year to ensure they are input correctly into the Council's asset register
- evaluate the assumptions made by management for assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

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Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

We will:

- identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement
- evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out
- undertake procedures to confirm the reasonableness of the actuarial assumptions made.
- check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2018.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	<p>Payroll expenditure represents a significant percentage (31%) of the Council's total expenditure.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls reconcile payroll expenditure reported in the financial statements to total expenditure recorded in the payroll system perform substantive analytical procedures
Operating expenses	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's total expenditure.</p> <p>Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls agree creditors to the ledger substantively test significant creditor balances review after date payments to ensure all liabilities have been identified

Other matters

Other work

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

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements; This year we will also complete objections previously received in 2015/16 and 2016/17 and certify completion of these audit years as appropriate.
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

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Other material balances and transactions

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

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) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £22.7m (PY £20m), which equates to 1.9% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

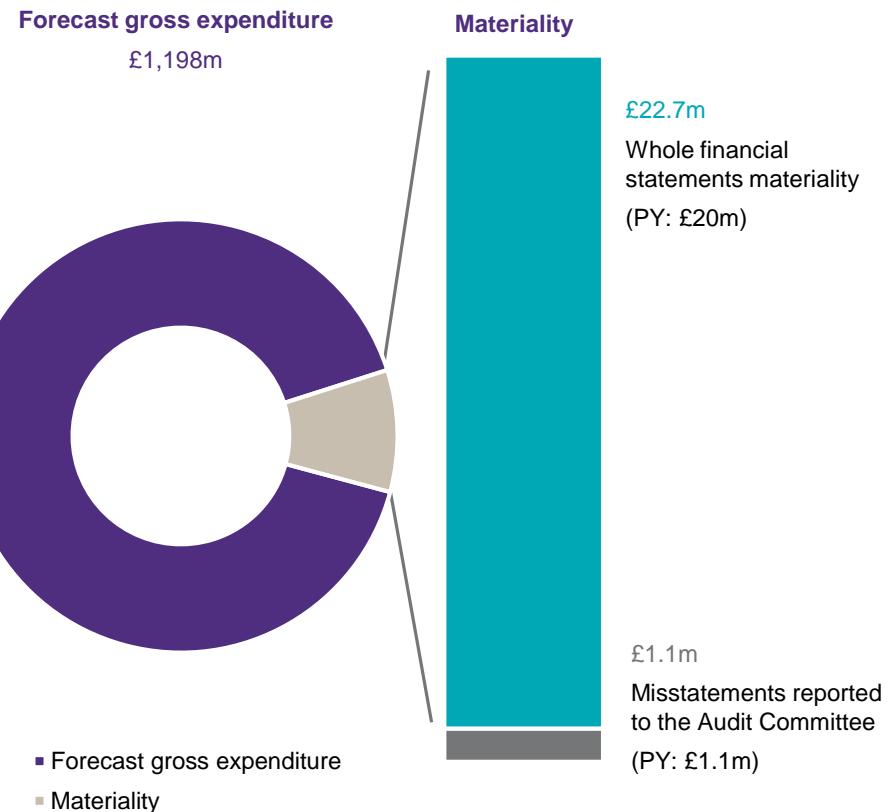
We have set lower levels of materiality for related party transactions (c£800k) and the disclosures related to senior officer remuneration (c£20k).

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.1m (PY £1m).

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



Value for Money arrangements

Background to our VFM approach

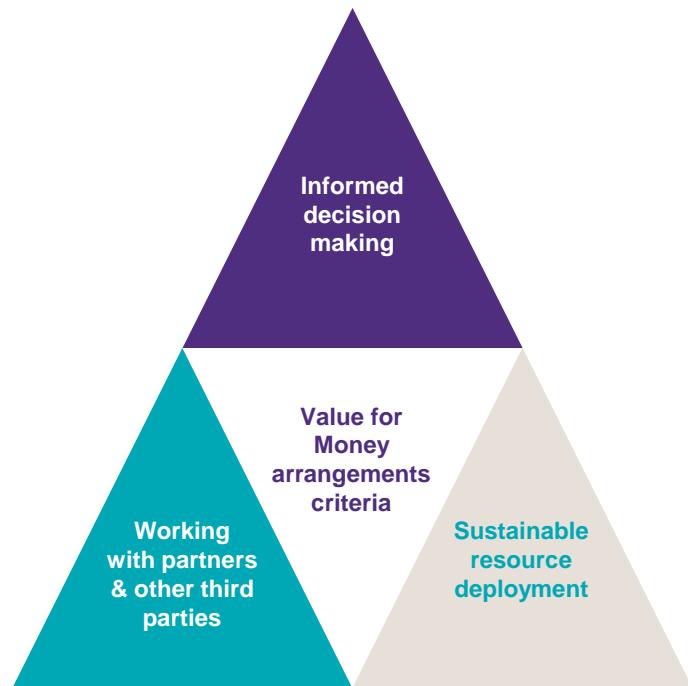
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

Page 14



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Strategic Financial Planning

The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. The delivery of the Council's medium term financial plan is currently reliant on its transformational programme, which is expected to become operational from 2019/20.



Nationally, the continued pressure from Adult and Children's services has resulted in significant overspends and further enforces the need to identify alternative methods of achieving councils' financial positions in the future.

We will review the project management and assurance frameworks established by the Council to understand how it is identifying, managing and monitoring these financial risks. We will review the robustness of the Council's financial plan and the extent to which the Council is seeking to identify further opportunities and alternative solutions to mitigate the risk of future cuts in resources and government funding. Our review will also look at the delivery of the 2017/18 budget, including performance against the Council's savings targets.

Audit logistics, team & audit fees



Jon Roberts, Partner

Jon leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



David Bray, Senior Manager

David plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.



Tori Redler, Executive

Tori's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

Audit fees

The planned audit fees are no less than £105,281 (PY: £105,281) for the financial statements audit. Our fees in respect of grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

bringing forward as much work as possible to interim audits

starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May

seeking further efficiencies in the way we carry out our audits

working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on the previous page). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

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

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Non-audit services

The following potential audit services for 2017/18 were identified:

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers Pensions Return for 2017/18	4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £105,281 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

As noted in our Audit Findings Report for 2016/17, we received an objection to the 2015/16 accounts in relation to payments to Devon Partnership NHS Trust for delegated responsibilities under the Care Act 2014.

We have also received a further objection to the 2016/17.

We have not yet invoiced the Council for either objection and we will advise the Audit Committee of the respective fees once these are known.

The amounts detailed above are the expected fees for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings Report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendix

A. Revised ISAs

Page 18

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

Agenda Item 5

Audit Committee
28 March 2018

EXTERNAL AUDIT – UPDATE

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.

1. The attached report, provided by the Pension Fund's External Auditors (Grant Thornton), sets out the planned approach for the audit of the Pension Fund for the year ended 31 March 2018. (The Council's Audit Committee are 'Those Charged With Governance' for the Pension Fund)

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries:

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Background Paper: None

DRAFT



External Audit Plan

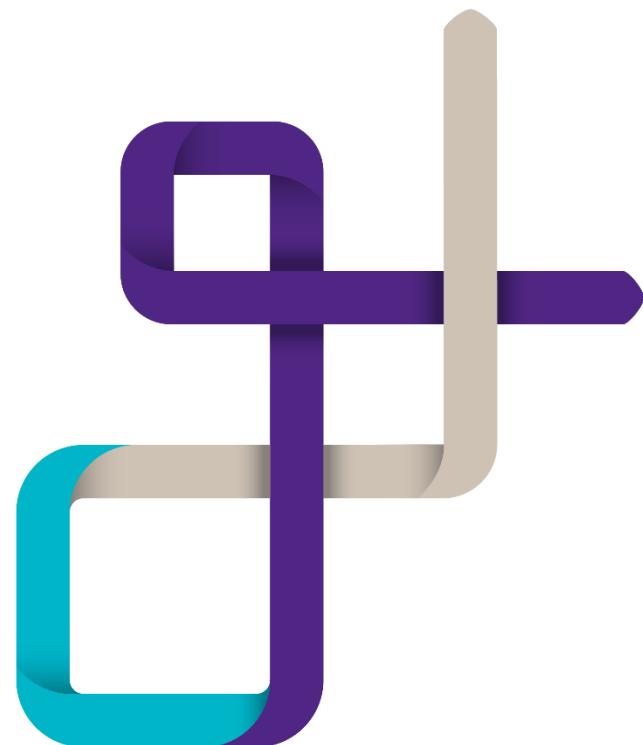
Year ending 31 March 2018

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Devon Pension Fund

1 March 2018

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Contents

	Your key Grant Thornton team members are:	
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Steph Thayer In Charge Auditor T: 0117 305 7821 E: steph.e.Thayer@uk.gt.com		

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Devon Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities.

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

Significant and reasonably possible risks

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

- Management over-ride of controls
- Valuation of level 3 assets
- Contributions from employers and employees
- Pension benefits payable
- Valuation of level 2 assets

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

Materiality

We have determined planning materiality to be £40m (PY £39m), which equates to 1% of your net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2m (PY £1.9m).

We have considered management expenses a key area of focus of users of the financial statements and determined that a lower specific materiality will be set at £125k (PY £500k).

Audit logistics

Our interim work will conclude in March 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £28,603 (PY: £28,603) for the Fund. Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery	Changes to financial reporting requirements	Key challenges
<p>Pooling</p> <p>Arrangements for the pooling of investments continue to develop. The DCLG have reported on the progress of pools and noted the pace of development, including the launching of procurements for pool operators, appointing senior officers and preparing applications for Financial Conduct Authority authorisation. This remains a challenging agenda, with arrangements required to be in place from 1 April 2018. These arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator. It remains key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.</p> <p>Matters in Financial Instrument Directive (MiFID II)</p> <p>January 2018 sees the implementation of MiFID II. The impact for Fund is that it will be able to continue to access the same investments as previously, you need to apply to 'opt up' and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the Fund, which may have an adverse impact on the achievement of the investment strategy</p> <p>On-going Matters</p> <ul style="list-style-type: none"> Indexation and equalisation of guaranteed minimum pension (GMP) in public service pensions schemes Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the Local Government Pension Scheme (LGPS) Local Government Pension Scheme Advisory Board (SAB) work on options for academies within the LGPS and review of Tier 3 employer risks 	<p>Accounts and Audit Regulations 2015 (the Regulations)</p> <p>The Ministry for Housing, Communities and Local Government is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.</p> <p>Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.</p> <p>Changes to the CIPFA 2017/18 Accounting Code</p> <p>CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.</p>	<p>Financial pressures</p> <p>Nationally, Local Government Pension Schemes continue to operate under financial pressures, with significant funding gaps being the norm.</p> <p>Devon Pension Fund has reported in-year increases in asset values in 2017/18 and we will review these as part of our audit work.</p> <p>General Data Protection Regulations (GDPR)</p> <p>GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.</p> <p>tPR 2016 Governance and Administration Survey</p> <p>Published in May 2017 whilst showing improvements in governance, the Pensions Regulator (tPR) noted that its focus for 2017/18 would be scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.</p> <p>We will include any issues identified in our Audit Findings Report..</p>

Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Devon County Council as the Administering Authority of Devon Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Devon Pension Fund.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments is incorrect	<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>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • consider the competence, expertise and objectivity of any management experts used. • review the qualifications of the any experts used to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Contributions from employers and employees' represents a significant percentage of the Fund's revenue.	<p>We will:</p> <ul style="list-style-type: none"> evaluate the Fund's accounting policy for recognition of contributions for appropriateness; gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; test a sample of contributions to source data to gain assurance over their accuracy and occurrence; rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension benefits payable represents a significant percentage of the Fund's expenditure.	<p>We will:</p> <ul style="list-style-type: none"> evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; test a sample of individual pensions in payment by reference to member files; rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 2 investments is incorrect	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.	<p>We will</p> <ul style="list-style-type: none"> • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • consider the competence, expertise and objectivity of any management experts used. • review the qualifications of the experts used to value the level 2 investments at year end and gain an understanding of how the valuation of these investment has been reached. • for a sample of investments, test the valuation by obtaining independent information from custodian/manager on units and unit prices.

Other matters

Other work

The Fund is administered by Devon County Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

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Other material balances and transactions

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

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) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £40m (PY £39m), which equates to 1% of your expected net assets, based on the financial statements for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

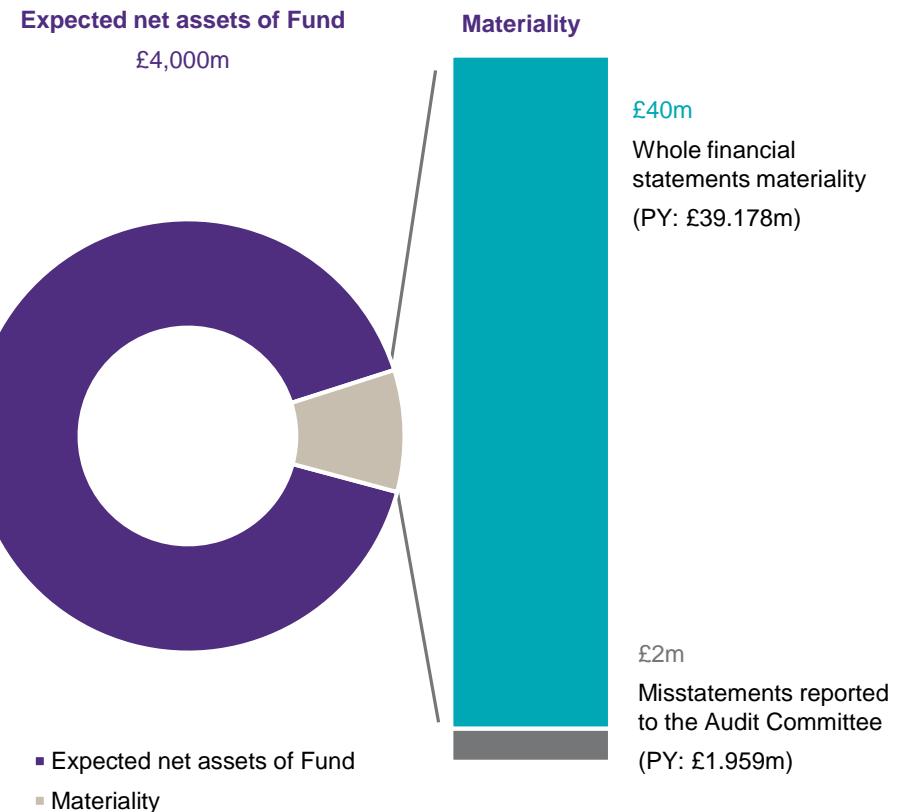
We have considered management expenses to be a key area of focus of users of the financial statements and determined that a lower specific materiality will be set for this area of £125k.

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2m (PY £1.9m).

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



Audit logistics, team & audit fees



Jon Roberts , Partner and Engagement Lead



Jon leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council and its Pension Fund.

David Bray, Senior Manager



David plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Steph Thayer, Audit In Charge Auditor



Steph's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

Audit fees

The planned audit fees are no less than £28,603 (PY: £28,603) for the financial statements audit. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

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

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Non-audit services

No non-audit services were identified.

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

Appendix

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	<p>We will be required to conclude and report whether:</p> <ul style="list-style-type: none"> • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.
Material uncertainty related to going concern	<p>We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Fund's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements.</p> <p>Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.</p>
Other information	<p>We will be required to include a section on other information which includes:</p> <ul style="list-style-type: none"> • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

Agenda Item 6

Audit Committee
28 March 2018

EXTERNAL AUDIT – UPDATE

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 progress in delivering their responsibilities as the County Council's external auditors and includes a summary of emerging national issues and developments relevant to the Council.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries:

David Bray | Senior Manager | Audit

For Grant Thornton UK LLP

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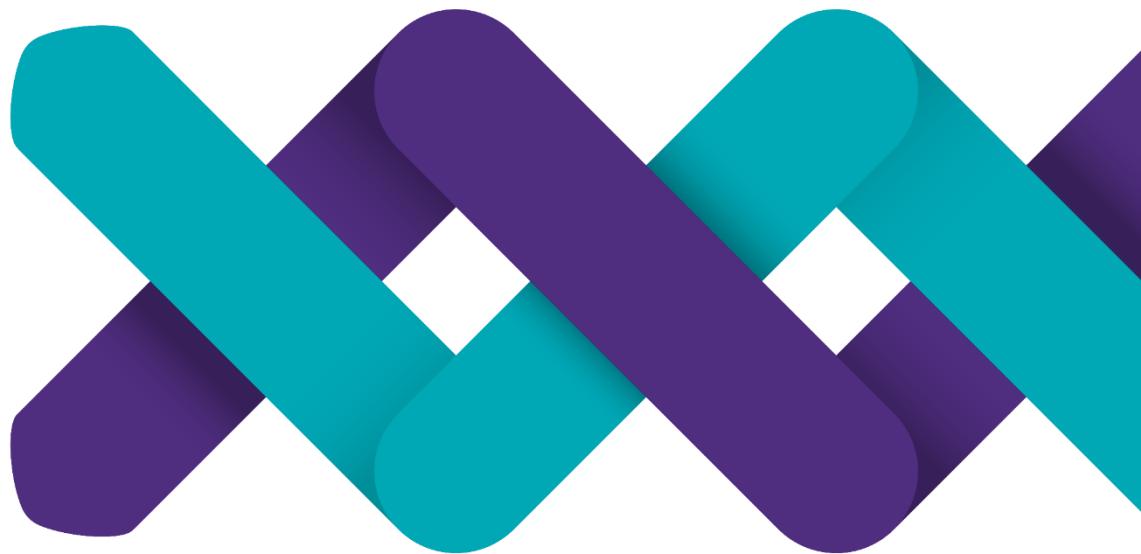
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Background Paper: None

Audit Progress Report and Sector Update

Devon County Council
Year ending 31 March 2018
Audit report date
12 March 2018



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Introduction



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Page 43



David Bray

Engagement Manager

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click here to be directed to the website: www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 12 March 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and have produced a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit at the end January 2018. Our interim fieldwork visit includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues e.g. the restatement of the Council's 2016/17 'telling the story' figures as a result of the Council's internal restructuring

The findings from the interim audit work completed to date are summarised on pages 6 and 7.

We are currently piloting a new software package that will facilitate our audit testing and make the audit process more efficient for ourselves and the Council.

At the time of writing, we had not received all of the data requested from the Council and we will report the conclusions of interim audit to the May 2018 Audit Committee meeting.

The final accounts audit is due to begin on the 18 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that: "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body 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 three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We completed our initial risk assessment to determine our approach in 2017 /18 and reported this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Objections to the Council's financial statements

As reported in our 2016/17 Audit Findings Report, we received objections in respect of the Council's financial statements for both 2015/16 and 2016/17.

We wrote the objector in December 2017 regarding the 2015/16 objection. We subsequently issued our certificate for 2015/16 on 27 February 2018 and that matter is now closed. We will brief the Chair of the Audit Committee on this matter.

We have made significant progress on the 2016/17 objection and will update the Audit Committee on 28 March 2018.

Meetings

We met with Finance Officers and the Chief Executive in February as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for Officers and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Audit Committee Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan <p>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017/18 financial statements. The audit plan will also include our initial value for money risk assessment.</p>	March 2018	Complete
Interim Audit Findings <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	May 2018	Not yet due
Audit Findings Report <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2018	Not yet due
Auditors Report <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	July 2018	Not yet due
Annual Audit Letter <p>This letter communicates the key issues arising from our work. It is a public facing summary of the Audit Findings Report, with updates on matters that were not completed in July e.g. the Whole Of Government Accounts work. The deadline for submitting the Annual Audit Letter to Public Sector Audit Appointments Ltd (PSAA) is 31 October 2018. We will be pleased to share this with Members once it has been produced and will present it at the November Audit Committee.</p>	November 2018	Not yet due

Results of interim audit work completed to date

Our interim audit work is on-going, however the findings of our interim audit work to date, and the impact of our findings on the accounts audit approach, are summarised in the table below:

Work performed	Conclusions and recommendations
Internal Audit	<p>We have completed a high level review of Internal Audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed Internal Audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices

Results of interim audit work completed to date (cont'd)

	Work performed	Conclusions and recommendations
Review of information technology controls	<p>We performed a high level review of the general IT (information technology) control environment, as part of the overall review of the internal controls system.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	<p>We plan to walkthrough the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>As set out in our audit plan, this includes employee remuneration, operating expenses, Property, Plant and Equipment (PPE) valuation, journals and the net pension fund liability.</p> <p>We have completed our work on operating expenses and this has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p> <p>We will supplement this assessment with further testing and update you as part of our next Audit Committee update.</p>
Early substantive testing	<p>We have undertaken early substantive testing in the following areas:</p> <ul style="list-style-type: none"> • Payroll - substantive analytical procedures for the first nine months of the year. • Review of opening balances. • Review of proposed CIES restatement to reflect the changes to internal reporting. 	Our work to date has not identified any weaknesses which impact on our audit approach.

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Page 48

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website.

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

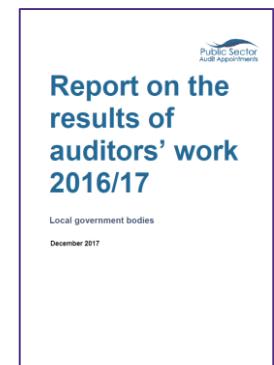
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for the 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing, Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance "Changing methods for calculating MRP", which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities' core objectives include 'service delivery objectives and/or placemaking role.' This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudent. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

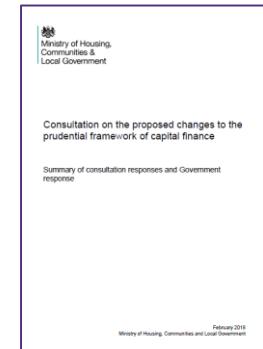
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Has your finance team briefed members on the impact of the changes to the prudential framework of capital finance?

CIPFA publications - The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

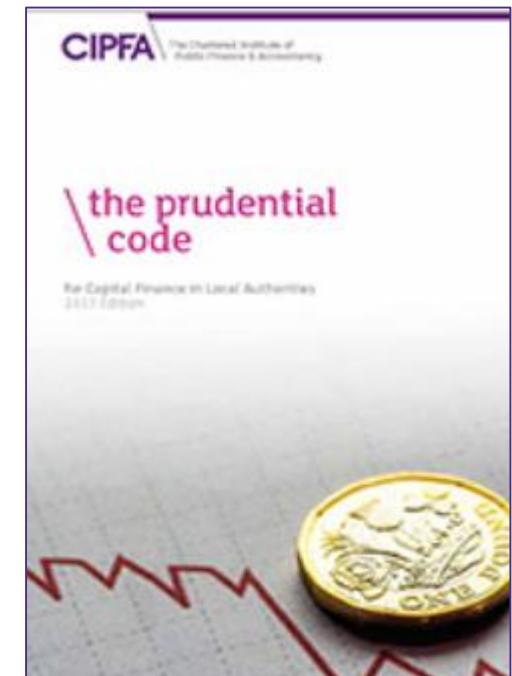
The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.

The Code is available in hard copy and online.



CIPFA Publication

Challenge question:

Has your finance team briefed members on the impact of the changes to the prudential code?



The adult social care workforce in England

This National Audit Office report considers the Department of Health & Social Care's role in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users' needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

The Department of Health and Social Care is not doing enough to support a sustainable social care workforce. The number of people working in care is not meeting the country's growing care demands and unmet care needs are increasing, according to the report. While many people working in care find it rewarding, there is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. In 2016-17, around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17), equivalent to £14,625 annually. This, along with tough working conditions and a poor image, prevents workers from joining and remaining in the sector.

There are around 1.34 million jobs in the adult social care sector in England, across more than 20,300 organisations. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7%. However, demographic trends suggest that demand for care will continue to increase and people's care needs will continue to become more complex. To meet these challenges, the Department estimates that the workforce will need to grow by 2.6% every year until 2035.

The social care market is operating in challenging circumstances. Care providers, already under financial pressures, are struggling to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is expected to reduce further over the next two years due to continued government funding cuts and increased financial pressures on local authorities. Uncertainty over funding is limiting local authorities' ability to plan future spending on care.

The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers' income comes from local authority-arranged care. The vast majority of local authorities are paying fees to homecare providers that are below the recommended minimum price for care, putting providers in financial difficulties. Furthermore, local authorities are not paying the full cost for care home placements. If this continues, there is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care.

The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. Furthermore, the NAO has not found any evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care, to help with the challenge. Without a national strategy to align to, few local areas have detailed plans for sustaining the care workforce.

The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities.

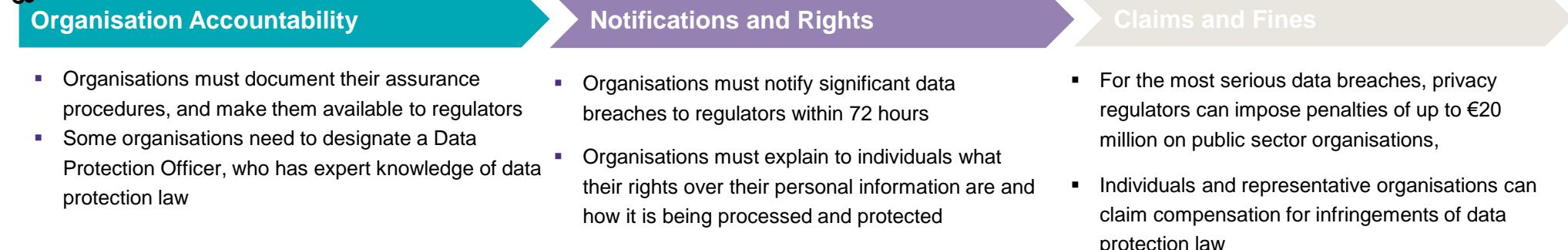


Overview of the General Data Protection Regulation (GDPR)

What is it?	What's next?
<p>The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.</p>	<p>Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.</p>

How will this affect you?	<ul style="list-style-type: none">✓ All organisations that process personal data will be affected by the GDPR.✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data
What organisations need to do by May 2018	<ul style="list-style-type: none">✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.✓ New policies and procedures need to be fully signed off and operational.

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Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

NPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

National Audit Office link

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

Agenda Item 7

CT/18/27
Audit Committee
28 March 2018

INTERNAL AUDIT PLANS FOR 2018/19

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 agrees the Internal Audit Plan for the year 2018/19

1. One of the responsibilities of the Committee is for “focusing audit resources, by agreeing the audit plans and monitoring delivery of the audit service”. The programme of internal audit work for the financial year 2018/19 is described in detail in a report available separately.
2. The key objectives of Internal Audit in the plans are:
 - to provide assurance to the County Treasurer (as the Section 151 “responsible officer”), Audit Committee and to other directors and members, on the adequacy and security of those systems on which the County Council relies for its internal control (the “control environment”);
 - to provide advice and assurance to managers and staff within the client directorates.
3. The planning process takes place with those clients towards the end of each financial year, resulting in an updated risk-based annual plan for the coming year. The risk-based audit work planned for 2018-19 is linked through the corporate and service risk registers to risks related to the achievement of the Council’s strategic objectives, as defined in the Strategic Plan. This is explained in more detail in the separate summary report.
4. Delivery of the Internal Audit Service will be by the Devon Audit Partnership, a shared services arrangement between Devon County Council, Plymouth City, Torridge and Torbay Councils.
5. Future meetings of the committee will receive half-yearly and annual reports summarising performance against the plans and key findings from reviews.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries:

Robert Hutchins Tel No: (01392) 383000 Dart suite, Larkbeare House, Topsham Rd, Exeter.

Background Paper: None



devon **audit** partnership

Internal Audit

Internal Audit Plan 2018/19

Devon County Council
Audit Committee

March 2018

Not Protectively Marked

Robert Hutchins
Head of Audit Partnership

Auditing for achievement



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Devon Audit Partnership	Confidentiality and Disclosure Clause
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon and Torridge 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.</p> <p>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 .</p>	<p>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.</p> <p>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.</p>

Introduction

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a ‘Board’ and of ‘senior management’. For the purposes of the internal audit activity within the Council the role of the Board within the Standards is taken by the Council’s Audit Committee and senior management is the Council’s Leadership Group. The Audit Committee, under its Terms of Reference contained in the Council’s Constitution, is required to consider the Internal Audit Plan to provide assurance to support the governance framework (see Appendix 2).

This Council’s Internal Audit Charter formally describes the purpose, authority, and principal responsibilities of the Council’s Internal Audit Service, which is provided by the Devon Audit Partnership (DAP) as represented in the audit framework at Appendix 1, and the scope of Internal Audit work. The PSIAS make reference to the role of “Chief Audit Executive”. For the Council this role is fulfilled by the Head of Devon Audit Partnership.

The Chief Audit Executive is responsible for developing a risk-based plan which takes into account the organisation’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation as represented in Appendix 3.

The audit plan represents the proposed internal audit activity for the year and an outline scope of coverage. At the start of each audit the scope is discussed and agreed with management with the view to providing management, the County Treasurer (Section 151) and members with assurance on the control framework to manage the risks identified. The plan will remain flexible and any changes will be agreed formally with management and reported to Audit Committee.



Expectations of the Audit Committee for this annual plan



Audit Committee members are requested to consider:

- the annual governance framework requirements;
- the basis of assessment of the audit work in the proposed plan;
- the resources allocated to meet the plan;
- proposed areas of internal audit coverage in 2018/19.

In review of the above the Audit Committee are required to consider the proposed audit plan.

**Robert Hutchins
Head of Audit Partnership**

Annual Service Level Plans

Adult Care and Health

Audits within this area include; the timeliness of Safeguarding - cases from start of process, protection plan, and final close down; a review of the Devon wide strategy for the integrated arrangements for the provision of Health in commissioning and the provision of care; and a review of the "Accommodation with Care Strategy", to provide assurance that the strategy is robust; well engaged; and that it will meet accommodation needs for adults with social care needs in the future.

Other work will include reviews of Autism, Continuing Health Care, section 117 agreements with Health and Direct payments.

Children's Services

Work within Children's Services will include how Devon works with the district councils in tackling homelessness amongst 16/17 year olds, looking at how the protocols and practices implemented are working in practice and their compliance with legislation.

We shall also review DCC's resilience in the system for recruiting and retaining Foster Carers, and provide assurance on DCC's response to the outcomes of the Narey fostering stocktake review.

We will also provide independent assurance that the Care Leavers service remains on track following the recent self-assessment peer review.

In relation to Early Help, we will provide an independent validation of where the Service has moved from the initial Early Help Assessment and where they are in relation to meeting the requirements of the new National Framework.

Communities, Public Health, Environment and Prosperity

Our work with regard Gypsies and Travellers will review aspects of current DCC delivery and explore opportunities and duties of partners.

We aim to review current practice, arrangements and approach to Channel and Prevent; statutory work around counter terrorism and extremism.

0-19 Public Health Nursing Service will soon be delivered by the Council; we will review and assess the proposed governance and assurance mechanisms to ensure that they are sufficient to provide DCC with confirmation that the national Public Health Grant Determination and the statutory responsibilities of the Director of Public Health can be upheld.

Corporate Services

Assurance work will be undertaken on areas termed as material systems that process the majority of income and expenditure of the Authority, and which have a significant impact on the reliability and accuracy of the annual accounts.

In addition to work on material systems, our work will include various other specific functions and projects within Human Resources, Payroll and Finance, and support to major system developments in relation to the new Payment Gateway and the new HR Management System (HRMS).

Highways, Infrastructure Development and Waste

A range of audits from across Highways, Infrastructure Development and Waste are included in 2018/19 plan. Audits range from a review of the Energy from Waste (EFW) scheme to management of significant infrastructure projects.

Value Added

All our work aims to "add value" the authority, be this by way of improving control and minimising risk, or making the most of opportunities in an effective manner.

We will undertake the annual follow up on all audit areas identified as 'Improvements Required' or 'Fundamental Weaknesses' in 2017/18.

Anti-fraud and corruption.

All of our work will contain elements to ensure that sound and effective arrangements are in place to prevent and detect fraud and / or irregularity. Where required, we will support management in the investigation of irregularity concerns, helping the Council to take the appropriate corrective action.

Service Area Overview of Audit Coverage					Major Projects	Value Added
Adult Care & Health	Children's Services	Communities, Public Health, Environment & Prosperity	Highways, Infrastructure Development and Waste			
Safeguarding	Placement Stability	Heart of the South West	Exeter EFW Plant			
Deprivation of Liberty Safeguards (DoLS)	Fostering Homelessness in 16/17 year olds	Channel & Prevent Gypsies & Travellers Public Health - Nursing Services 0-19 year olds Economic Analysis	Infrastructure Highways		Online Payments Gateway	Tax Compliance Forum Business Rate Retention
Assistive Technology	Care Leavers				HR Management System	Fraud Prevention and Investigation National Fraud Initiative
Disabilities S117 Continuing Health Care (CHC) Direct Payments	Early Help Schools & SFVS					Advice Audit Follow Up

Core Assurance	Business Processes & Governance - Ethics & Culture, Business Rate Retention; Payroll & HR functions, Health & Safety, Budgeting System, VAT, Procurement, Supplier Resilience, Contract Lifecycle, Grant Certification, Audit Assurance Planning & Reporting, and other Related Bodies.					
Key Financial Systems (Material Systems) - Bank Reconciliation, Creditors, Debtors, Finest System Admin, Fixed Asset Register, Income Collection, Main Accounting System, Payroll, Treasury Management.						
ICT - Contract Management, Resource Planning, Purposeful Systems, ICT Continuity and Disaster Recovery.						

The elements proposed for audit for the coming year are those identified through risk assessment and discussion with Senior Management. This overview is supported by the proposed audit reviews and associated risks.

High Level Audit Plan 2018/19

This table shows a summary of planned audit coverage for the year totalling 1,060 direct days. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with service areas, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector.

Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment - in this way we can ensure that the key risks to the operation or function are considered during our review. The following pages give a brief overview of the focus of proposed audit coverage for the year.

A detailed analysis of proposed audit reviews is provided in the following schedule.

Core Activity for Internal Audit Review	Coverage in Days
Material Systems	110
Corporate Services - (Excluding Anti-Fraud & NFI)	183
Adult Care and Health	185
Children's Services	90
Communities, Public Health, Environment and Prosperity	105
Digital Transformation and Business Support	112
Highways, Infrastructure Development and Waste	70
Grant Certification	50
Anti-Fraud and Corruption including NFI	100
Other Chargeable Activities	55
Total internal audit plan for Devon County Council	1060
Schools (estimated)	281

Proposed audit reviews and associated risks

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)	
Material Systems					
Core Assurance - Key Financial System *					
Payroll	High	* A rolling programme of audits is adopted for material systems whereby the work programme for each year may differ, with each audit having varying amounts of system review, testing or a combination of the two. This approach enables us to deliver a more cost-effective service, whilst providing sufficient assurance as to the adequacy of the Authority's material system control environment.	Walkthrough	Q2-Q3	19
Debtors / Debt Recovery	Medium		Sample testing	Q4	15
Bank Reconciliation	Medium		Walkthrough	Q3	8
System administration	Low		Sample testing	Q4	9
Creditors	Medium		Walkthrough	Q2	15
Fixed Asset Register	Low		Walkthrough	Q3	7
Income Collection	Medium		Sample testing	Q3	12
Treasury Management	Low		Walkthrough	Q2	8
Main Accounting System	Medium		Sample testing	Q4	12
Advice, planning, monitoring and performance reporting.				Q1-4	5

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Corporate				
Payments Gateway Project	Low; client request	Continued input during introduction of new system to ensure changes in practices are secure and meet any efficiency proposed as part of the business case.	Q1	6
Finance - Tax Compliance Forum	Medium; client request	Input to Forum and contingency to allow for projects that arise from meetings. Agreed as a result of HMRC visit October 2014 and changes to their auditing of tax.	Q1-4	5
Health & Safety Governance	Medium; client request	Review of Corporate Health and Safety Governance and H&S risk management arrangements to ensure these are in line with legislation and regulations, and are effective, with useful reporting structures.	Q3	15
HR-Relocation Expenses	Medium; client request	Review of relocation policy and procedures to ensure cost effective; comparable to other Authorities; and in line with Authority financial regulations and ethos.	Q1	15
HR SLA's	Medium; client request	Review HR Service Level Agreements with external bodies, including schools, to ensure cost effective and competitive.	Q3	15
Business Rate Retention	Medium; client request	Devon County Council, in partnership with other Devon LA's, was successful in a bid to become a 100% business rate retention pilot area in 2018/19. The project will involve working with the others; understanding the rate retention; sharing benefits across the county and generally managing funding in a different way. The audit will support this work, helping to ensure the Council retains the benefit of growth in local business rates (rather than lose nationally into core funding allocations). This is to be a cross cutting piece of work, led by Plymouth, and reporting to all authorities within the Devon pool.	Q3	2
Debt Mapping	Medium; client request	Map the processes for debt recovery outside of the Revenue Section and review for efficiency; ensure in line with regulations and DCC	Q1	15

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		policies.		
Finance - Accounting for VAT in Partnerships (Education & Learning)	Medium; client request	Review partnership working processes and practices, with regards to financial arrangements for accounting for VAT – to focus on partnerships within the Education & Learning service area (Audit included at the request of the DCC Tax Compliance Group).	Q2	15
HRMS Project	High; client request	Input in relation to control considerations as the project progresses through to implementation stages).	Q1 to Q3 (driven by project)	20
General Data Protection Regulation (GDPR) Page 67	Medium; client request	GDPR - adoption of new regulations; data storage; Organisational awareness & training; agreements with third parties such as partnerships or joint working arrangements. This must be in place by the end of May.	Q1	10
Other non-technical	Medium; client request	Information Governance has responsibility for establishing practices to support this area. Ongoing audit support and advice following prior year audit to follow up on progress made.	Q3-4	5
Apprenticeship Levy	Low; client request	Review of the financial elements of the application of regulations and guidance relating to payment of the apprenticeship levy, which came into effect in April 2017. Including tax implications thereof.	Q1	10
Business Continuity Planning (BCP) - Registrars	Medium; client request	To review and develop BCP processes to ensure key risks, such as loss of systems or venues, have been identified, assessed and processes adequately mitigate the risk.	Q3	10
Client Finance Services	Medium;	Review of processes to assess client financial contributions.	Q4	10
Follow-up reviews	Medium	Follow up prior year audits with audit opinion of "improvements required" to ascertain progress against recommendations and improvement to processes.	Q2	10
Contingency		Contingency - Audit assurance during the year as issues arise.	Q2-4	10

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Advice, planning, monitoring and performance reporting			Q1-4	10
Adult Care and Health				
Adult Care Operations and Health				
Safeguarding	Medium: client request	To consider the timeliness of Safeguarding cases from start of process; protection plan; and final close down. Also to determine whether the real time system for monitoring timeliness is being used to improve standards across the County. To be informed by the use of comparative data which shows safeguarding activity levels are low relative to statistical neighbour and regional comparator authorities.	Q1	10
Learning Disabilities – Autism	High: client request	A review of support for adults with disabilities:- <ul style="list-style-type: none">• How DCC (and the wider health and care system in Devon) is responding to the needs of people with LD, Autism and/or sensory (vision, hearing and speech) needs;• To better understand outcomes for people with sensory needs in Devon as a consequence of DCC's model of specialist sensory input;• To understand how outcomes could be improved for people in Devon with Autism.	Q2/3	10
Learning Disabilities	Medium - client request	To consider how a shift in culture around engagement has been achieved, within the wider agenda to better support adults of working age. Full scope to be agreed.	Q2/3	10
Continuing Health Care	Medium: client request	To provide assurance that DCC operates within the LA legal limits for the provision of social care: <ul style="list-style-type: none">• local policies and processes are agreed with NHS partners in line with the legal framework;	Q3	15

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		<ul style="list-style-type: none"> that the social care contribution to CHC assessments is robust and timely and assessment resources are used effectively; funding agreements and disputes are resolved promptly; assessment and commissioning for high cost/complex care support plans is subject to appropriate scrutiny and governance to meet quality expectations including best value in line with Fair and Affordable Care. 		
Section 117 – Mental Health Page 69	Medium: client request	An audit to provide assurance that S117 policy agreements are in place with NHS partners, and that the agreements are robust, effective and provide for key expected elements. Ensuring but not limited to: <ul style="list-style-type: none"> Funding calculations are accurate; Charging policies applied are appropriate. 	Q3	15
Deprivation of Liberty Safeguards (DoLS)	Medium: client request	To review the framework for DoLS, and review processes for making and assessing applications and ensure that the one-year authorisation limit is not exceeded.	Q2	15
Direct Payments	Medium: client request	To provide assurance that the pathway into direct payments is robust and consistent and that processes are robust enough to ensure payments are appropriate and meet the needs and expectations of the client and DCC.	Q3	10
Independent Reviews	Low; client request	To provide assurance that the business case for investing in external case review capacity is sound in practice: <ul style="list-style-type: none"> The business case the procurement was based on was reasonable; The procurement process lead to a solution that met the requirement laid out in the business case; 	Q1	10

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		<ul style="list-style-type: none"> The external review capacity undertook the required number of reviews? The reviews were undertaken to the specified practice standards; The reviews have led to envisaged financial benefits. <p>Review how the outcomes and lessons learnt from the External Review Report are being incorporated into the service practice.</p>		
Adult Commissioning and Health				
Technology Enabled Care Support (TECS) – formerly Assistive Technology	Medium; client request	<p>To assure that we are taking the opportunities offered by the new DILIS contract by making better use of Technology Enabled Care Support to find cost-effective solutions to people's needs:</p> <ul style="list-style-type: none"> Is the implementation of the DILIS contract realising its potential benefits? Are we changing our practice to make better use of assistive technology solutions? <p>Consider how this complements other solutions.</p>	Q4	10
Devon Partnership Trust	Medium: client request	Scope to be agreed	Q2	10
Working with District Councils on Accommodation and Housing	Medium: client request	A review of the "Accommodation with Care Strategy", for all adult groups, to provide assurance that the strategy is robust; well engaged; and that it aims to ensure accommodation needs for adults with social care needs can be met in future. Also whether relationships with district councils are strong enough to deliver this strategy in partnership.	Q4	15
Implementation of new Care Homes Fees Model	Medium: client request	Review implementation of new fee model at key gateways throughout the implementation process to determine whether:-	Q1-4	10

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		<ul style="list-style-type: none"> • key targets have been achieved; • individual fee model established, replacing banded fees; 		
Market Capacity	Medium: client request	To assure that the Market Position Statement (MPS) is appropriate and effective and ensures that the Council can meet its statutory market sufficiency requirement for care.	Q4	10
Models of Care	Medium: client request	<p>A review of the Devon wide Strategy for the further development of the integrated arrangements for the provision of health in commissioning and the provision of care in Devon, to provide assurance around:-</p> <ul style="list-style-type: none"> • the roadmap and milestones; • due diligence on options analysis and the decision making process; • integrated care system – organisations; systems; partnerships 	Q1-4	15
Contingency	Medium; client request	Contingency. Audit assurance during the year at key gateway points as processes or systems change, or through commissioning arrangements.	Q1-4	10
Adult Care and Health: Advice, planning, monitoring and performance reporting			Q1-4	10
Children's Services				
Children's Social Care				
Homelessness in 16/17 year olds	Low; client request	New protocols being implemented with district councils to tackle homelessness for 16/17 year olds. Review the protocols and practices. Is the guidance working; are practices compliant with	Q4	10

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		legislation (National Legislation).		
Recruitment and Retention of Foster Carers	Medium; client request	Review of DCC's resilience of the system for recruiting and retaining Foster Carers	Q1	15
Fostering Service	Medium; client request	To provide assurance on DCC's response to the outcomes of the Narey fostering stocktake review.	Q4	15
Care Leavers	High; client request	To provide independent assurance that the service remains on track following the recent self-assessment peer review.	Q4	10
Education and Learning				
Early Help	High; client request	To provide an independent validation of where the Service has moved from the initial Early Help Assessment and where they are in relation to meeting the requirements of the new National Framework. The audit is likely to be jointly scoped with Children's Social Care	Q2	20
Early Years Provision	High; client request	A light touch review of the Council's policies, strategies, and its capacity around meeting the requirements for 30 hours provision.	Q4	10
Children's Services: Advice, planning, monitoring and performance reporting.			Q1-4	10
Communities, Public Health, Environment and Prosperity (CoPHEP)				
Gypsies and Travellers	Medium; client request	To review aspects of current DCC delivery and explore opportunities and duties of partners.	Q2	8
Channel & Prevent	Medium; client request	Review of current DCC practice and arrangements and approach to Channel and Prevent; statutory work around counter terrorism and	Q1	10

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
		extremism.		
Active Devon	Low; client request	Review governance and hosting arrangements and implications, as required through Sport England funding arrangements	Q1	7
Public Health – Nursing Services	Medium; client request	Following the decision by Cabinet for the 0-19 Public Health Nursing Service to be delivered by Devon County Council, review and assess that the proposed governance and assurance mechanisms developed, as part of the transition plan, are sufficient to provide DCC with confirmation that the national Public Health Grant Determination and the statutory responsibilities of the Director of Public Health are upheld. The provision of the 0-19 year olds Nursing Service falls under Children's Services.	Q3	15
Child Safety Strategy	Medium; client request	Review current position and advice on programme of work.	Q4	15
Sustainable Procurement Policy (SPP)	Medium; client request	SPP requires all procurement activity over £10k to make use of a tool to scope likely significant environmental effects that need to be managed through the specification and selection process.	Q2	10
Trading Standards - Complaint Allocation and Investigation Process	Low; client request	Review of our adherence to our own internal processes for ensuring they are dealt with in a timely manner and are of appropriate quality. The scope will not cover the criminal investigations themselves.	Q	8
Trading Standards	Medium; client request	Review of the Primary Authority process.	Q	8
A procurement framework for economic analysis	Medium; client request	A new procurement framework is currently being prepared, and it would be useful to assess how the old framework has performed, and lessons learnt which can be used to inform the new framework.	Q	8
Economic Analysis Contract	Medium; client request	DCC has an ad-hoc contract with an independent firm (SQW). The contract is entering its 4 th and final year. Assess how the contract is performing.	Q	6

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
CoPHEP: Advice, planning, monitoring and performance reporting			Q1-4	10
Digital Transformation and Business Support				
Scomis Contract Management	Medium; client request	Review of the Scomis delivery arm and how they are managing the contracts novated to them.	Q1	10
Scomis Resource Planning	Medium; client request	Review how resource is proactively allocated and managed to provide support service. A review of maintaining “business as usual” versus development needs.	Q2	10
Adoption and Change Programme	Medium; client request	Review of methodology handed over by MicroSoft to determine how pace and scale of technology changes can be managed in DCC. Evaluate value and potential for securing further funding, and to provide advice and guidance to the team on developing the methodology.	Q1 to Q4 (ongoing)	20
Page 74				
Purposeful Systems	Medium; client request	To review the various streams and establish how ICT can ensure they are sufficiently resourced to respond as required.	Q1 to Q4 (ongoing)	15
CareFirst (OLM)	Critical; client request	Adults migration to Eclipse; Eclipse, CareFirst, Fiscal, Guardian hosted within OLM. Audit to review contract, providing assurance that it is operating as required e.g. Disaster Recovery which is outside of DCC control. Review price (initial and ongoing) versus service received.	Q1/Q2	20
ICT Continuity and Disaster Recovery (DR)	High; client request	To review the Council’s provision for ICT Continuity and DR, including reliance on external/third parties.	Q3	10
Key Financial Systems (ICT elements)	High; client request	To review operational functions processes that are common to all key financial systems.	Q4	12
Procurement.	Medium ; client request	Contingency - Audit assurance during the year on key aspects of procurement. Dependent upon the outcomes/resource requirements for I.T.	Q1-4	7

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Advice, planning, monitoring and performance reporting			Q1-4	8
Highways, Infrastructure Development and Waste				
Exeter EFW Plant	Medium; client request	£7m / annum contract. Audit review required of the annual reconciliation payment made to Viridor and how this is done. Audit view required upon the information Viridor have provided. Work will build on previously received Legal and financial advice.	Q2	10
Infrastructure	Critical; client request	Overspends can occur on some construction projects from estimate stage. Audit review to consider :- <ul style="list-style-type: none"> • What are the key learning points from this? - is it inadequate design, mistakes, or technical competence? Consider whether the type of contract and way these are administered affect this.	Q1	10
Highways	Critical; client request	New highways contract in place. Contractor share mechanism assurance required.	Q2	10
Primary School Build	Medium; client request	Review of tender method of procurement/contract, and advice going forward	Q3	10
Collaboration with Others	Low; client request	To look at the whole life asset cost to the Authority when new infrastructure is built.	Q3	10
Contingency		Contingency days - dependent on the outcomes of whole service review – to be advised		10
Advice, planning, monitoring and performance reporting			Q1-4	10
Grants				
Active Devon	n/a	Grant determination requires independent certification of expenditure by Internal Audit.	Q1	2

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Bus Subsidy	n/a	Grant determination requires independent certification of expenditure by Internal Audit.	Q2	2
Careers and Enterprise	n/a	Grant determination requires independent certification of expenditure by Internal Audit.	Q2	5
Local Growth Fund	n/a	Grant determination requires independent certification of expenditure by Internal Audit.	Q1	5
Local Transport Capital Block Funding – inc pothole action fund; street lighting change fund; challenge fund tranche 2A; National Productivity Investment Fund (NPIF)	n/a	Grant determination requires independent certification of expenditure by Internal Audit.	Q2	6
NPIF – Exeter & Eastern Growth and Main Street Sherford	n/a	New for 2018-19. Audit requirements yet to be confirmed by funding body.	Q2	4
Learn Devon – formerly Skills Funding Agency	n/a	Assurance for S151 Officer.	Q2	3
Migration Fund Grant – Children's Services	n/a	New migration fund grant. Audit requirements yet to be confirmed by funding body.	Q3	3
Troubled Families Programme	n/a	Grant determination requires independent certification of expenditure by Internal Audit.	Q1-4	5
Make every contract count – (MECC)	n/a	LEP (P ledger) Health check	Q3	2
Violence against women and girls - VAWG	n/a	LEP (P ledger) Health check	Q3	2
Growing places fund	n/a	LEP (P ledger) Health check	Q3	2
Local transport Board	n/a	LEP (P ledger) Health check	Q3	2
HO Syrian Refugee grant	n/a	Awaiting further information from funding body	Q4	4

Risk Area / Audit Entity	Risk / Audit Needs Assessment (an assessment of the priority of the planned review)	Proposed Audit Work / Scope	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Grants: Advice, planning, monitoring and performance reporting			Q1-4	3
Other Chargeable Activities (not incorporated above)				
Corporate Governance	n/a	Support for Audit Committee, annual follow up for Audit Committee, corporate governance, internal audit standards, customer service excellence, audit development, liaison with external audit etc	Q1-4	55

Fraud Prevention and Detection and Internal Audit Governance

Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. In recognition of the guidance in the Fraud Strategy for Local Government "Fighting Fraud Locally" and the TEICCAF (The European Institute for Combating Crime and Fraud) publication "Protecting the English Public Purse 2016". Internal Audit resources will be allocated to allow a focus on identifying and preventing fraud before it happens. Nationally these areas include Procurement, Payroll, Blue Badges, Direct Payments and Pensions.

The Cabinet Office runs a national data matching exercise (National Fraud Initiative - NFI) every two years. Work on the 2018/19 exercise will commence in the summer, with resulting data matches available from early 2019. We will work with Council departments to ensure that the matches are reviewed and action taken as may be necessary.

Internal Audit Governance

An element of our work is classified as "other chargeable activities" – this is work that ensures effective and efficient audit services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that this may cover include:-

- Preparing the internal audit plan and monitoring implementation;
- Preparing and presenting monitoring reports to Senior Management and the Audit Committee;
- Assistance with the Annual Governance Statement;
- Liaison with other inspection bodies (e.g. External Audit (Grant Thornton), Audit South West);
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during the year;
- On-going development within the Partnership to realise greater efficiencies in the future.

Partnership working with other auditors

We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We will participate in a range of internal audit networks, both locally and nationally which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of "re-inventing the wheel" in new areas of work which have been covered in other authorities.

We have developed sound working arrangements with Grant Thornton, the authority's external auditors and have regular liaison meetings to understand their requirements and to provide the information they require, maximising the benefits of close working. We have also developed an effective working relationship with Audit South West (NHS Internal Audit) and anticipate more opportunities to work collaboratively together as integration between the Council and Health develops.

Appendix 1 - Audit Framework

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state: “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance”.

DAP, through external assessment, demonstrates that it meets the Public Sector Internal Audit Standards (PSIAS).

The Standards require that the Chief Audit Executive must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the Chief Audit Executive should take account of the organisation’s risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation’s business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.



We will seek opportunity for shared working across member authorities. In shared working Devon Audit Partnership will maximise the effectiveness of operations, sharing learning & best practice, helping each authority develop further to ensure that risk remains suitably managed.

Appendix 2 - Annual Governance Framework Assurance

The Annual Governance Statement provides assurance that

- The Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

- be prepared by senior management and signed by the Chief Executive and Leader of the Council;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that is followed to ensure that the governance arrangements remain effective. This will include comment upon;
 - The Authority;
 - Audit Committee;
 - Risk Management;
 - Internal Audit
 - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA recently revised International Framework – Good Governance in the Public Sector. If not, a statement is required stating how other arrangements provide the same level of assurance.



The AGS needs to be presented to, and approved by, the Audit Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Corporate Risk Management Group, Leadership Group and Internal Audit that the statement meets statutory requirements.

Appendix 3 - Audit Needs Assessment

We employ a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the “Audit Universe” using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention.

The result is the Internal Audit Plan set out earlier in this report.

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Audit Universe

Transformational Change

Governance

Audit Needs Assessment

Risk Management Framework

Directorate key objectives

Core Assurance

Key Financial Systems

Fraud & Corruption

The audit plan for the year has been created by:

Consideration of risks identified in the Authority's strategic and operational risk registers

Review and update of the audit universe

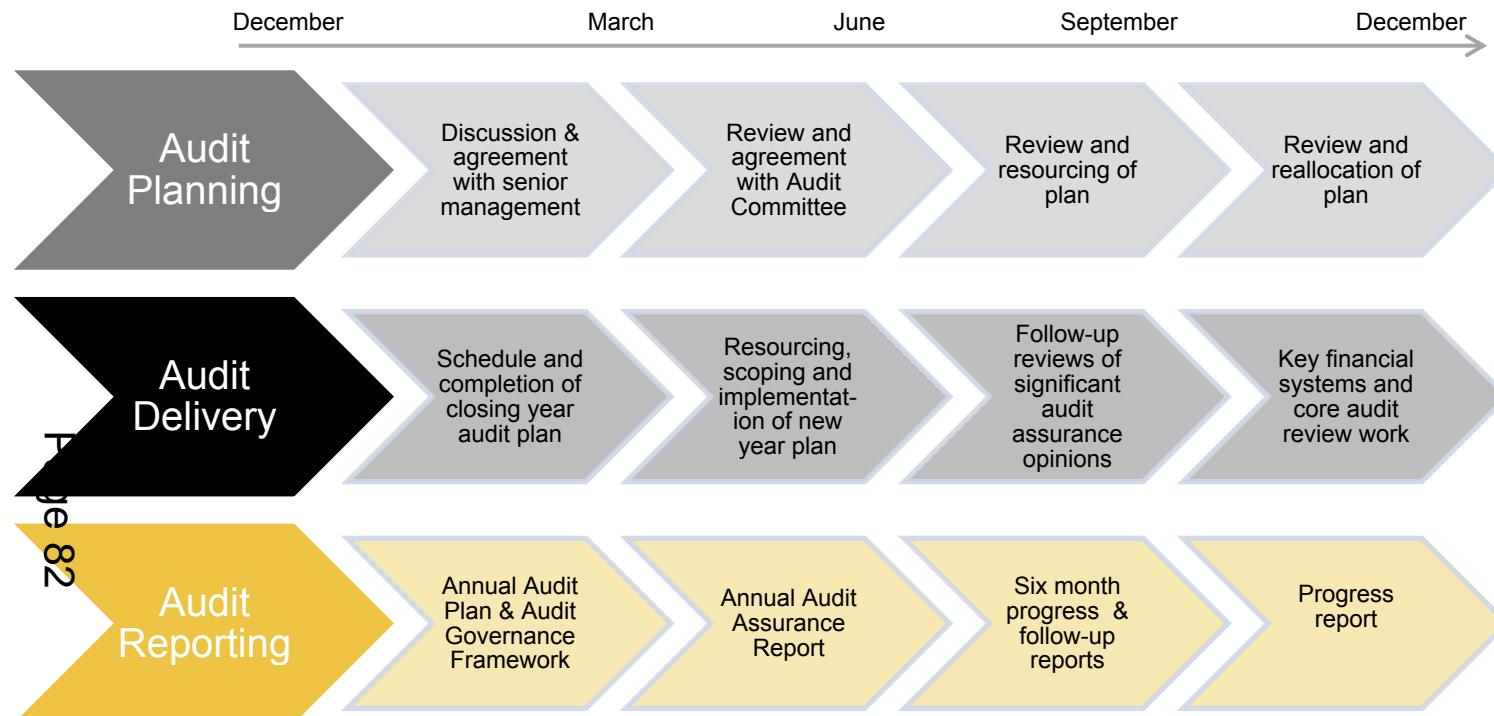
Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives

Taking into account results of previous internal audit reviews

Taking into account Internal Audit's knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council's delivery plans

Requirements to provide a “collaborative audit” approach with the external auditors

Appendix 4 - Our Audit Team and the Audit Delivery Cycle



Date	Activity
Dec / Jan 2018	Directorate planning meetings
March 2018	Internal Audit Plan presented to Audit Committee
	Internal Audit Governance Arrangements reviewed by Audit Committee
	Year end field work completed
Apr / May 2018	Annual Performance reports written
June 2018	Annual Internal Audit Report presented to Audit Committee
	Follow - up work of previous year's audit work commences
Sept 2018	Follow-up and progress reports presented to Audit Committee
Dec 2018	Six month progress reports presented to Audit Committee
Jan 2019	2019/20 Internal Audit Plan preparation commences

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Agenda Item 8

CT/18/31
Audit Committee
28th March 2018

DEVON COUNTY COUNCIL – CONTROL ENVIRONMENT

Report of the County Treasurer

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

It is recommended that Members:

- i. Note the report;
- ii. Endorse the conclusion of the County Treasurer that the authority's accounts should be prepared on a Going Concern basis; and
- iii. Endorse the letter from the Chair to the external auditor (Grant Thornton).

1. Each year the Chair of the Audit Committee and S151 officer are required to respond to enquiries from the external auditors (Grant Thornton) regarding the overall control environment of the Council, with particular focus on the arrangements in place to ensure that the production of the financial statements will be free of material error.
2. It is acknowledged that no process can ever be risk free; however it is important that appropriate checks and balances are in place to ensure accuracy in preparation of the accounts and to identify errors should they arise without compromising the opinion on the accounts.
3. It should be noted that although the close-down of the accounts only occurs once a year the control environment needs to be operational throughout the accounting period on a consistent and error free basis to provide an appropriate level of assurance on the accounts.
4. Each year the authority assesses whether it should be considered as a Going Concern and whether the accounts should be prepared on that basis. The external auditor, Grant Thornton, has again this year requested that the Audit Committee consider this assessment. The County Treasurer considers that the authority is a Going Concern and that the accounts should be produced on this basis. Evidence to support this conclusion is contained within section 27 of the appendix to the s151 officer's response attached.
5. The Audit Committee will be required to authorise the accounts in July after Grant Thornton has audited the accounts and prepared a report on their findings that will also go to the July Audit Committee. The attached letters from the Chair and the Section 151 officer communicate the details of the control environment.

Mary Davis

Electoral Divisions: All
Local Government Act 1972

Contact for Enquiries: Peter Lappin
Tel No: (01392) 383342

Background Paper

Date

File Ref

Nil

There are no equality issues associated with this report

From: Mary Davis
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28th March 2018

Dear Jon

Devon County Council and Devon Pension Fund

Audit of Accounts 2017/18

Thank you for your letter of 30th January 2018 in which you request information in support of your requirements under the International Auditing Standards.

You require an understanding of the management processes in place to prevent and detect fraud and ensure compliance with law and regulation.

You helpfully enclosed a schedule which explored the areas you require assurance on. I have completed this schedule and now attach this for your information.

I trust that this schedule provides you with good insight into how we ensure the risk of fraud is effectively addressed, and how we ensure compliance with law and regulation.

If you do require any further information do please let me know.

Yours sincerely

Mary Davis
Treasurer

Responses from Management:

	Auditor question	Response
1.	What do you regard as the key events or issues that will have a significant impact on the financial statements for 2017/18?	There is no single event which will have a material effect on the accounting statements for 2017/18. Whilst the effect of reduced Government funding puts a pressure on its finances, the Council has managed to live within the budget and is setting a balanced budget for 2018/19.
2.	Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are reviewed by the Finance Leadership Group on a regular and ongoing basis and where appropriate minor updates made. There are no events or transactions which have led to changed or new accounting policies other than those required by the Code. There are no events or transactions that have caused us to change or adopt new accounting policies.
3.	Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	None
4.	What are the policies and procedures in place to identify applicable legal and regulatory requirements to ensure the Council is complying with those requirements?	In addition to indicating how any proposal will reflect/contribute to the Council's priorities/strategic plan/corporate goals and the options considered every report to Cabinet must highlight any necessary legal considerations taken into account. This could be to indicate either that there were no specific legal considerations or to show that the 'lawful' implications/consequences of the proposals/recommendations/proposed course of action have been considered and taken into account in the preparation of the report/formulation of the recommendations. The Constitution is the Council's Code of Corporate Governance which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The County Solicitor and her team are kept informed of legal developments through updates in professional journals and newsletters. The Society of County Treasurers provides technical updates to changes in legislation and regulation which have a financial implication for the Council.

5.	How would you assess the quality of the Council's internal control processes?	I am informed by the work of internal audit and by the review of internal control for the Annual Governance Statement that internal control within the council is at least satisfactory.
6.	How would you assess the process for reviewing the effectiveness of internal control?	I am happy that the process is robust.
7.	How do the Council's risk management processes link to financial reporting?	All decision reports require a risk assessment. The risk registers include financial risks and mitigating controls.
8.	How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	<p>Awareness is key to identifying the possibility of fraud and as such it is essential that staff are aware of the possibility of fraud within their working environment. We have an e-learning "fraud awareness" module in place to help managers increase their fraud awareness.</p> <p>Our internal audit team, Devon Audit Partnership (DAP) issues regular fraud bulletins to raise awareness of the possibility of fraud; identify the circumstances of their occurrence and the controls that should be in place and adhered to by staff to minimise the risk of similar frauds taking place within the authority.</p> <p>Where areas of fraud risk are identified, these are reviewed by management and subject to audit review to ensure the controls in place are fit for purpose and being adhered to.</p> <p>All allegations of fraud are taken seriously and are investigated promptly by management in conjunction with Internal Audit, HR and Legal Services as applicable.</p> <p>The annual internal audit plan includes time for fraud prevention, detection and investigation. This plan is subject to annual review and takes into account any areas of concern which have been raised by colleagues within other local authorities, or national initiatives in areas where fraudsters are known to operate.</p> <p>Through the work undertaken by Internal Audit, Trading Standards and various law enforcement partners, all significant findings are advertised via the media and the public website to raise awareness of the implications of what can happen to a fraudster if they are found out and a conviction successfully obtained.</p>

9.	What has been the outcome of these arrangements so far this year?	<p>Proactive anti-fraud work has been undertaken during the first six months of 2017/18. A Fraud bulletin has been produced and published on DAP's website.</p> <p>DAP regularly reviews data produced from the accounts payable process to check for, and prevent, potential duplicate payments; this work has continued during 2017-18.</p>
10.	What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Direct payments, creditor payments, purchasing card transactions, contract and procurement.
11.	Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The Council is a large organisation covering a wide range of services. The Council encourages whistleblowing from employees who may have concerns and each referral will be thoroughly investigated, with action taken to remedy any issues identified.
12	Have any reports been made under the Bribery Act?	None
13.	As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>Internal audit reports to the Audit Committee, including any reference to fraud prevention, detection and investigation.</p> <p>Internal Audit (DAP) produces regular fraud bulletins. The Head of Devon Audit Partnership is a member of the Finance Leadership Team and uses that forum to communicate fraud and risk issues.</p>
14.	As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	<p>These are communicated through messages via the Insider publication, Core Briefings, senior management team meetings etc. as part of the management process.</p> <p>In addition, guidance is available to staff on the relevant policies around business practices and ethical behaviour; including within the Code of Business Conduct the need to be transparent and register gifts and hospitality offered but declined.</p>
15.	What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Decision reports include financial and legal implications. General monitoring of legal work i.e. we receive 'letters before action'. Risk register.
16.	Is there any use of financial instruments, including derivatives?	<p>The accounts show the Council makes use of financial instruments which are typical for local authorities. These include debtor and creditor balances, investments and long term borrowing. The Council has no embedded derivative contracts.</p> <p>The Pension Fund makes use of a wide variety of financial instruments which are typical for LGPS funds. These will include investments in equities,</p>

		bonds, pooled funds invested in property and infrastructure, and will also include forward currency contracts.
17.	What is the status of the contingent assets and liabilities reported in the previous period?	The contingent liabilities disclosed in Note 38 of the Statement of Accounts 2016/17 have not been realised and there has been no call on the pension guarantees.
18.	Are you aware of any significant transaction outside the normal course of business?	I am not aware of any significant transaction outside the normal course of business.
19.	Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	I am not aware of any significant issues of impairment.
20.	Are you aware of any guarantee contracts?	The authority has entered into a contract to guarantee 50% of loan repayments in relation to Science Park Ltd. This and pension guarantees were fully disclosed in the Statement of Accounts 2016/17 and will be again in 2017/18.
21.	Are you aware of allegations of fraud, errors, or other irregularities during the period?	Various allegations, including whistle blowing allegations, are received during the year. These are thoroughly investigated and action taken to address any concerns raised. Internal Audit maintains a record of all instances reported to them; such a record is available for External Audit to review.
22.	Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	None
23	Have there been any examinations, investigations or inquiries by any licensing or authorising bodies, other regulators or the tax and customs authorities?	There was a risk review in terms of our tax compliance carried out by HMRC. The exercise commenced in November 2016 and was concluded in October 2017 when we were advised of our low risk classification.
24	Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	As in previous years disclosures will be made in the Statement of Accounts in relation to Property, Plant & Equipment, Debtors, Pension Liability and Provisions.
25	Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what are the underlying assumptions, has an expert been used, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	Full disclosure will be made in the Statement of Accounts. There is no significant change from last year.

26	Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The loss contingencies are outlined in a note to the accounts.
27	Although the public sector interpretation of IAS1 means that the financial services should be prepared on a going concern basis, management are required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	<p>The accounts have been prepared on a going concern basis. The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Although Central Government funding is being cut significantly this will have no adverse effect on Devon County Council as a going concern.</p> <p>Financial Performance – the authority has a strong track record of not overspending its budget. 2016/17 was the 26th year in succession that the authority has delivered a surplus at the year end. This is in spite of significant cuts to Government funding and in year pressures in the area of children's social care. The Council expects a small overall surplus at the end of 2017/18.</p> <p>Continuing Provision of Services – Ongoing cuts to public sector expenditure have resulted in significant reductions in local authority funding. The authority has made savings of over £200 million since the comprehensive spending review of 2010. Services have been reduced, efficiencies found and different delivery models identified. These changes do not affect the going concern status of the authority as overall services to the people of Devon continue. The authority has tax raising powers and is still in receipt of a significant level of government grant.</p> <p>Cash flow/financing – The Budget Management Group receives cash flow forecasts at every meeting. The report for Month 10 shows a balance of £190 million at 31 January and forecasts a balance of £134 million at 31 March 2018 (£121 million when Growing Places Fund is excluded).</p> <p>My conclusion is therefore that the authority is a Going Concern and the accounts should be prepared on that basis.</p> <p>As part of the budget process, the Treasurer prepares a high level MTFS covering the next three years and this supports the declaration on the robustness of estimates and the adequacy of</p>

		<p>reserves. The Council will need to make significant savings in order to meet the reduced level of resources over this timescale.</p> <p>However, even with large budget reductions, the County Council's gross revenue budget is in excess of £1 billion, with a five year capital programme totalling over £425 million. The long and short term assets of the authority exceed £1.6 billion. There are no structural changes proposed by Government for Local Government and therefore no doubt exists around the medium term future of the Council or its classification as a going concern.</p> <p>The Treasurer receives Committee and finance reports and attends weekly Corporate Leadership Team meetings with the Chief Executive, Chief Officers, Heads of Service and County Solicitor. These meetings consider any significant issues that would affect the consideration of going concern.</p>
28.	Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>We use Browne Jacobson Solicitors for our claim work. Waste services have instructed Burges Salmon on a non-litigious matter regarding the Energy from Waste plant in Exeter and instructed Bevan Brittan in relation to a waste acceptance facility in North Devon (also non-litigious). Bevan Brittan has also assisted us by preparing new DCC standard terms and conditions. Eversheds have been used regarding the Exeter Schools PFI and some State Aid advice.</p> <p>Battens solicitors have taken on some childcare work.</p> <p>Regarding the Pension Fund: we have instructed Osborne Clark in relation to the project to pool pension fund investments.</p> <p>We have used Eversheds Sutherland on one piece of work in relation to an agreement with a Pension Fund admitted body.</p> <p>Ashfords, Michelmores, Foot Anstey, Tozers and David Jones Bould have all acted for Conveyancing on non-contentious matters in the past year.</p>
29	Can you provide details of other advisors consulted during the year and the issue(s) on which they were	The authority uses Link Asset Services (formerly known as Capita) in relation to investment advice

	consulted?	and financial instrument valuations and NPS South West as property valuer. LG Futures provides financial projections to help with budgeting and the Medium Term Financial Strategy.
30.	Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	I am not aware of any.

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28th March 2018

Dear Jon

Devon County Council and Devon Pension Fund

Audit of Accounts 2017/18

Understanding how the Audit Committee gains assurance from management

Thank you for your letter of 30th January 2018 in which you request information in support of your requirements under the International Auditing Standards.

You have asked how the Audit Committee gains assurance over management processes and arrangements in place for Devon County Council and Devon Pension Fund.

You helpfully enclosed a schedule which explored the areas you require assurance on. I have completed this schedule and now attach this for your information.

I trust that this schedule provides you with good insight into how the Audit Committee gains assurance over management processes and arrangements in operation.

Yours sincerely

Councillor John Mathews
Chair of the Audit Committee

Response from Audit Committee Chair

Fraud risk assessment

Please provide responses to the following questions in respect of both the Council and the Pension Fund

	Auditor Question	Response
1.	Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	<p>As outlined below there is a comprehensive fraud and corruption risk planning strategy in place. No significant fraud has been identified that would affect the material accuracy of the accounts.</p> <p>The Head of Devon Audit Partnership (DAP) has been able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.</p>
2.	What are the results of this process?	The comprehensive procedures in place indicate that the risk is low of material misstatement due to fraud.
3.	What processes does the Council have in place to identify and respond to risks of fraud?	<p>The internal audit service has developed a Fraud & Corruption Risk Planning Strategy which identifies the key risks within the central processes operated by the Council, ensuring that appropriate controls are in place to safeguard its operations.</p> <p>All financial irregularities that are reported to Internal Audit are diligently investigated. A summary of the key cases is included within the annual report of the Head of the Devon Audit Partnership to the Audit Committee.</p>
4.	Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	To my knowledge (and as informed by management and the Head of Devon Audit Partnership) I am not aware of any specific fraud risks, or areas with a high risk of fraud, being identified.
5.	Are internal controls, including segregation of duties, in place and operating effectively?	<p>The Audit Committee receives an annual report from the Head of the Devon Audit Partnership including an assurance on the system of internal control within the County Council, including the pension fund.</p> <p>Overall, based on work performed during 2017/18 to date, and our experience from the current year progress and previous years audit, the Head of Internal Audit's Opinion is expected to be of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.</p>
6.	If not, where are the risk areas and what mitigating actions have been taken?	
7.	Are there any areas where there is a potential for override of	I am informed that there are no areas where management override could take place, and if this were

	controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	to occur then our arrangements would ensure that it is detected promptly giving time for full redress. We do not have performance related pay and we do not provide financial reward for our staff in meeting any targets.
8.	Are there any areas where there is a potential for misreporting?	We consider that our reporting systems are sound and reliable and do not consider that there is potential for misreporting.
9.	How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	<p>The Council takes zero tolerance approach to fraud and the Audit Committee takes a lead on ensuring this approach is adhered to.</p> <p>On a six monthly basis reports are provided by the Internal Audit section summarising audit work carried out in the preceding six month period. These reports provide summary narrative information of work undertaken in respect of fraud and corruption work including a summary of key investigations undertaken and any significant issues or implications for the control environment arising.</p> <p>The Internal Audit plan in summary form is presented to the Audit Committee for consideration and approval.</p> <p>The Audit Committee is kept updated of fraud and irregularity work. An extract from our six month report (presented to the Audit Committee in Nov 2017) showed:-</p> <p>Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability.</p> <p>Work has continued coordinating the review of the various data sets involved with the NFI from the 2016/17 exercise. The majority of the data matches have been reviewed.</p> <p>Various pieces of proactive anti-fraud work have been undertaken during the first six months of the 2017/18 financial year:-</p> <ul style="list-style-type: none"> • A Fraud Bulletin has been produced, published on the DAP website and sent to all staff through the weekly Friday 'Inside Devon' email; • The annual Accounts Payable data analysis to identify instances of duplicate payments has yielded results. Finalising review of 2015/16 Accounts Payable data has led to the recovery of a further £5,000; whilst work upon 2016/17 Accounts Payable data is currently ongoing a number of potential duplicate payments have

	<p>been referred to the Payments team and we await feedback. Identified and confirmed to date is one duplicate payment of £35,134.06 which has been recovered.</p> <p>Irregularities - During the first half of the 2017/18 financial year, Internal Audit has carried out or assisted in 5 investigations at Devon County Council. Analysis of the types of investigation and the number undertaken shows the following:-</p> <table border="1"> <thead> <tr> <th>Issue</th><th>Number</th></tr> </thead> <tbody> <tr> <td>Theft</td><td>1</td></tr> <tr> <td>Theft of IT equipment</td><td>1</td></tr> <tr> <td>Employee Conduct</td><td>2</td></tr> <tr> <td>IT Misuse</td><td>1</td></tr> </tbody> </table> <p>Issues ranged from theft of a laptop from an officer's vehicle, money going missing from an employee's purse at a day centre to employee conduct issues around use of IT equipment.</p> <p>Proactive anti-fraud work has been undertaken during the first six months of 2016/17. Fraud bulletins continue to be produced and publicised to Council staff via the Insider (now Inside Devon) and also published on DAP's website.</p> <p>DAP regularly reviews data produced from the accounts payable process to check for, and prevent, potential duplicate payments; this work has continued during 2017-18.</p> <p>A register of all instances of reported fraud and corruption is maintained by Devon Audit Partnership. Each allegation is categorised to enable annual fraud survey returns to be completed for various agencies such as the National Fraud Authority.</p> <p>The Head of the Devon Audit Partnership has the right of direct access to the Chair of the Audit Committee to discuss significant allegations of fraud and / or corruption should the need arise.</p>	Issue	Number	Theft	1	Theft of IT equipment	1	Employee Conduct	2	IT Misuse	1
Issue	Number										
Theft	1										
Theft of IT equipment	1										
Employee Conduct	2										
IT Misuse	1										
10.	What arrangements are in place to report fraud issues and risks to the Audit Committee?										

		<p>Risk Management – annual and six monthly progress reports are provided to the Audit Committee from the Corporate Risk Management Group.</p> <p>Management – are asked to provide explanations to areas where risk has not been mitigated sufficiently, or where internal or external audit reports have identified areas of concern.</p> <p>External Audit – provide assurance on the statement of accounts, grant claimed and the achievement of value for money.</p>
11.	How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<p>Part One of the Council's constitution sets out the Code of Business Conduct</p> <p>https://new.devon.gov.uk/democracy/wp-content/blogs.dir/17/files/pdf_cache/constitution-part-5.pdf</p> <p>Employee conduct is covered by a corporate policy. A copy can be provided if required.</p> <p>The code of Business conduct includes the Financial Regulations of the Council which also set out standards for contracts and tendering.</p> <p>The Council has a web page "Doing Business with Us" which sets out the standards expected on suppliers and contractors.</p> <p>A regular fraud bulletin is prepared by Devon Audit Partnership and this is shown on their website. . This is publicised to staff via the Insider bulletin (now Inside Devon). The bulletin highlights the need for vigilance against fraud and corruption, recent cases affecting this and neighbouring authorities and giving guidance on what to do if fraud or corruption is suspected. We also make use of payslip notifications to inform staff of their responsibilities.</p> <p>The Council has also provided guidance to strengthen arrangements against money laundering.</p>
12.	How do you encourage staff to report their concerns about fraud?	The council has an effective, and well used, whistleblowing policy that sets out how employees can make their concerns known.

	Have any significant issues been reported?	An organisation the size of the council will always have a number of ongoing reviews taking place at any one time; these are always “significant” to the employee concerned, but may not have such a bearing on the wider organisation. The internal audit provider regularly provides an updated list of all fraud and irregularity cases currently under investigation.
13.	Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None as far as I am aware.
14.	Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since 1 April 2017?	As stated above an organisation the size of the council will always have a number of ongoing reviews taking place at any one time; these are always “significant” to the employee concerned, but may not have such a bearing on the wider organisation. Internal audit regularly provides examples of fraud and irregularity cases currently under investigation.

Law and regulation

	Auditor Question	Response
1.	What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Annual Governance Statement (AGS) for Devon County Council is submitted to the Audit Committee and signed off before the financial statements are agreed. The AGS is an assurance from the Leadership Team that all controls are in place which includes legal and financial controls. The Council’s Section 151 Officer is a member of the Council’s Leadership Team and also attends the Audit Committee. The Section 151 Officer therefore has first hand exposure to the issues and risks facing the County Council as a whole and the individual service areas. More challenging reports are discussed by the Leadership Team before reaching the Committee stage and both the Section 151 and Monitoring Officers are joint signatories to reports with legal or financial implications.

2.	How does management gain assurance that all relevant laws and regulations have been complied with?	See above.
3.	How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	At the year end the County Solicitor (Monitoring Officer) is asked to specify if there is litigation in progress that may lead to substantial costs and findings against the County Council or Pension Fund. The Deputy County Treasurer, Senior Assistant County Treasurer and Assistant County Treasurers are asked to identify any contingent liabilities that may require disclosure. A combination of these arrangements allows the financial statements to reflect any material issues requiring disclosure.
4.	Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2017?	None as far as I am aware.
5.	What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Enquiries are made of the County Solicitor, Insurance Officer, Head of HR and senior finance officers. Any instances are then assessed in line with proper accounting practices and appropriate entries and disclosure made.
6.	Is there any actual or potential litigation or claims that would affect the financial statements?	All are disclosed within the Statement of Accounts.
7.	Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None as far as I am aware.