

# The Audit Findings for Devon County Council

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**Year ended 31 March 2014**

25 September 2014

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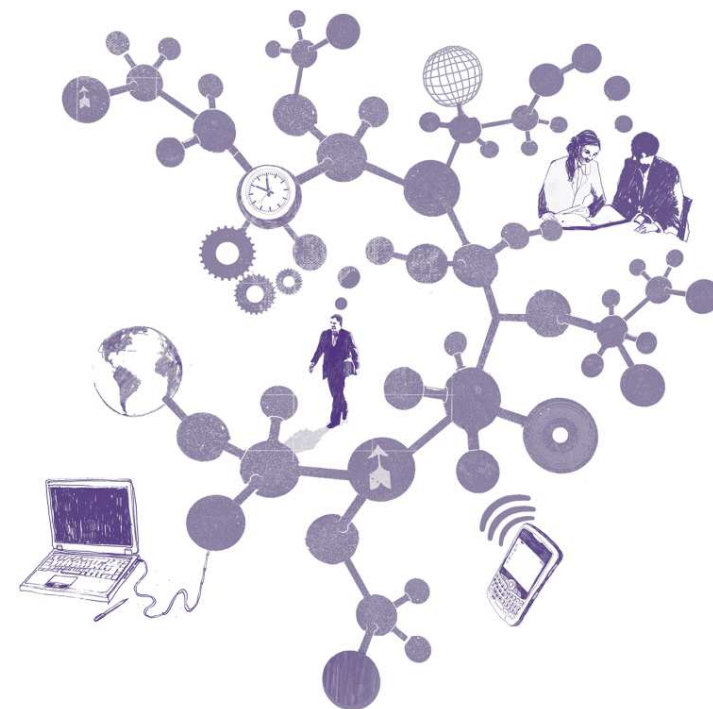
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is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

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Devon County Council's (the Council's) financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, the Value for Money (VfM) conclusion.

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 27 March 2014.

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

- awaiting bank confirmations of investments
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

The financial statements were very well prepared and we identified few amendments. We have not identified any adjustments affecting the Council's reported financial position but we identified a number of adjustments to improve the presentation of the financial statements.

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

- the Council implemented our recommendations from last year – 2012/13 by including in the balance sheet the PFI liabilities for all six schools and the landfill provision.
- the Council included the additional disclosures that we suggested during the audit and corrected some minor typographical errors
- the financial statements were supported by a high standard of working papers in accordance with the agreed timetable supported by excellent assistance from the finance team.

Further details are set out in section 2 of this report.

### **Value for Money conclusion**

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issue which will give rise to a qualified 'except for' VfM conclusion:

The Council has made insufficient progress in addressing the issues raised by OFSTED' in 2013 when it rated the Council's children's services as inadequate. The issue also resulted in a qualified VfM conclusion for 2012-13.

The Council is addressing a major financial challenge which will require changes to many services over the next few years. Plans are being developed for the financial year 2015-16 and beyond but there remain some significant uncertainties.

Transformation of the way that key services are being provided has begun but will take time to deliver the necessary change. There remain risks to the Council's future financial position until these transformational projects are delivered and the savings are realised.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

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

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

We have reported one issue in section 2 of this report.

### **The way forward**

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

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

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 27 March 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 27 March 2014.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion on the financial statements. Our audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

|    | Risks identified in our audit plan   | Work completed   | Assurance gained and issues arising  |
|----|--|--|--|
| 1. | <p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>                  | <p>Our audit work has not identified any issues in respect of revenue recognition.</p>   |
| 2. | <p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>                    | <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions]</li> </ul> | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

# Audit findings against other risks

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

| Transaction cycle            | Description of risk   | Work completed  | Assurance gained & issues arising  |
|------------------------------|---|---|--|
| <b>Operating expenses</b>    | Creditors understated or not recorded in the correct period | We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Review of internal financial controls relating to operating expenses and creditors</li> <li>• Substantive testing of material expenditure streams for the 2013-14 financial year</li> <li>• Substantive testing of creditor balances</li> <li>• Review of after date payments to ensure all liabilities identified</li> </ul>  | Our audit work has not identified any significant issues in relation to the risk identified. |
| <b>Employee remuneration</b> | Employee remuneration accrual understated                   | We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Review of internal financial controls relating to employee remuneration</li> <li>• Substantive testing of employee remuneration expenditure for 2013-14 financial year</li> <li>• Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete</li> <li>• Review of reconciliation of the payroll system figures to the general ledger</li> </ul> | Our audit work has not identified any significant issues in relation to the risk identified. |

# Audit findings against other risks

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

| Transaction cycle                             | Description of risk                        | Work completed   | Assurance gained & issues arising   |
|---|--|--|---|
| <p><b>Property, plant &amp; equipment</b></p> | <p>Revaluation measurement not correct</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Review of internal financial controls relating to capital valuation</li> <li>• Substantive testing of revaluation adjustments in the asset register to agree with the information provided by the valuer</li> <li>• Review of the Council's programme of valuation to ensure that the process is consistent with CIPFA's Code</li> </ul> | <p>We have made some observations in the section on judgements and estimates – PPE, regarding the Council's rolling programme of revaluations and the accounting standard IAS16 which requires the revaluation of all items within a class of property, plant and equipment simultaneously.</p> |

# Accounting policies, estimates & judgements

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

| Accounting area                   | Summary of policy  | Comments  | Assessment   |
|-----------------------------------|--|---|--|
| <p><b>Revenue recognition</b></p> | <ul style="list-style-type: none"> <li>• Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods and services;</li> <li>• The full cost of employees is charged to the accounts for the period within which the employees worked. Accruals are made for salaries and wages, holiday pay, flexi leave and time off in lieu earned but unpaid at the year-end;</li> <li>• Supplies and services are recorded as expenditure when they are consumed or received. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;</li> <li>• Interest payable on borrowings and receivable on investments is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contract;</li> </ul> | <ul style="list-style-type: none"> <li>• The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code).</li> <li>• Income is not an area that requires significant judgement or estimation.</li> <li>• The disclosure of the accounting policy is adequate.</li> </ul> | <p style="text-align: center;">●</p> <p style="text-align: center;"><b>Accounting Policy is appropriate and disclosures sufficient</b></p> |

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements

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


| Accounting area                   | Summary of policy   | Comments  | Assessment   |
|-----------------------------------|---|---|--|
| <p><b>Revenue recognition</b></p> | <p>Council tax and Non Domestic rates</p> <ul style="list-style-type: none"> <li>• Revenue is recognised when the following conditions have been satisfied:                             <ul style="list-style-type: none"> <li>• a) the amount of revenue can be measured reliably and</li> <li>• b) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority</li> </ul> </li> <li>• There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable.</li> <li>• The Collection Fund Adjustment Account records the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Funds administered by the Billing Authorities.</li> </ul> | <ul style="list-style-type: none"> <li>• The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code).</li> <li>• Income is not an area that requires significant judgement or estimation.</li> <li>• The disclosure of the accounting policy is adequate.</li> </ul> | <p style="text-align: center;">●</p> <p style="text-align: center;"><b>Accounting Policy is appropriate and disclosures sufficient</b></p> |

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements

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

| Accounting area                 | Summary of policy   | Comments  | Assessment   |
|---------------------------------|---|---|--|
| <b>Judgements and estimates</b> | Key estimates and judgements include: <ul style="list-style-type: none"> <li>• useful life of capital equipment</li> <li>• PPE revaluations and impairments</li> <li>• Private Finance Initiative</li> <li>• accounting for schools non-current assets.</li> <li>• pension fund valuations and settlements</li> <li>• provisions</li> </ul> | The estimates and judgements made by management are in line with the Code's expectations.<br><br>The pension fund valuations have been based on judgements and estimates from an independent actuary.<br><br>The estimates of asset valuations and asset lives are provided by an independent valuer. | <div style="text-align: center;">  <p><b>Judgements and estimates are appropriate and disclosures sufficient</b></p> </div> |



## Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

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

| Accounting area                              | Summary of policy  | Comments  | Assessment   |
|--|--|---|--|
| <p><b>Judgements and estimates - PPE</b></p> | <p><b>Devon County's accounts</b></p> <ul style="list-style-type: none"> <li>Pages 36 and 51 of the accounts set out the authority's rolling programme of revaluations.</li> <li>This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</li> </ul> <p><b>Compliance with the Code</b></p> <ul style="list-style-type: none"> <li>In our view this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously.</li> <li>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:                             <ul style="list-style-type: none"> <li>the revaluation of the class of assets is completed within a '<i>short period</i>'</li> <li>the revaluations are kept up to date</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. Officers have judged that the Council's asset base is too large to revalue all assets in any one year. The Council should consider changing its programme to revalue the whole of certain classes of assets each year.</li> <li>For assets not valued in the year, sufficient assurance has been gained from the Council's valuer that Property, Plant and Equipment valuations held in the accounts remain materially correct.</li> </ul> | <p style="text-align: center;"></p> <p style="text-align: center;"><b>Judgements and estimates are appropriate and disclosures sufficient</b></p>   |
| <p><b>Other accounting policies</b></p>      | <ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>   | <ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> <li>Minor omissions were reported to management during the course of the audit.</li> </ul>  | <p style="text-align: center;"></p> <p style="text-align: center;"><b>Judgements and estimates are appropriate and disclosures sufficient</b></p> |

**Assessment**


- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

# Internal controls



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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

|    | Assessment  | Issue and risk  | Recommendations  |
|----|---|---|--|
| 1. |  | <p><b>Absence of Security Log monitoring and Lock out policy</b></p> <ul style="list-style-type: none"> <li>• There is no documented process to review security logs across the financial applications or the network servers on a periodic basis. This is impacted by the lack of a strong lockout policy, to ensure that unauthorised access is blocked and accounts locked out following invalid password entry.</li> <li>• There is a risk that unusual activity or security events taking place on the network and financial applications might not be detected in a timely manner and given the criticality of the data in these systems, it is advisable that there are processes to identify any unauthorised access, thereby reducing the risk of fraud, manipulation or error.</li> </ul> | <ul style="list-style-type: none"> <li>• We recommend that lock out policy should be set to no more than 3 password guesses then lockout until an administrator unlocks the account. Also, that appropriate security logs are identified and reviewed on a regular basis.</li> </ul> |

## Assessment

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



## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

|    | Issue  | Commentary  |
|----|--|---|
| 1. | <b>Matters in relation to fraud</b>                | <ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee . We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>                     |
| 2. | <b>Matters in relation to laws and regulations</b> | <ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>  |
| 3. | <b>Written representations</b>                     | <ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>   |
| 4. | <b>Disclosures</b>                                 | <ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>  |
| 5. | <b>Matters in relation to related parties</b>      | <ul style="list-style-type: none"> <li>Our review of members declaration of interests forms indicates that declarations have not been received from six Councillors. There is a risk that related party transactions may have occurred but not been disclosed in the accounts.</li> </ul> |
| 6. | <b>Going concern</b>                               | <ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>  |

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the arrangements were adequate with some risks around the focus of the medium term financial plan, The Council has underspent on its budget for 2013/14 through a combination of strict budget discipline to curtail the overspending in People's Services and the deferral of work on highways. This was a significant achievement but the element of deferral of expenditure is only temporary and significant savings plans will still need to be implemented.

The Council's long term debt to long term assets is the highest in its comparator group and increasing as school assets are transferred out of the balance sheet. The Council's ratio for long term borrowing as a proportion of its tax revenue is higher than most of its statistical nearest neighbour group, although it has been moving closer to the average over the six year period to 2012/13.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Our work considered the findings of the April 2013 Ofsted report and the subsequent letter from the Department for Education dated July 2014 on the Council's arrangements for the protection of children. The inspection judged arrangements to be inadequate and the July 2014 letter, whilst recognising that improvements had been made, raised concerns about "...the apparent lack of progress in some significant areas..." and the letter goes on to say "..., if Ofsted inspected services now, they would find practice to still be 'inadequate'..." Similar to last year, as the review related to a significant service we judge this to be of sufficient impact that a qualification of the value for money conclusion is required. The qualified conclusion is set out on the next page.

# Value for Money

## **Overall VFM conclusion**

### **Basis for qualified conclusion**

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered the Council's progress in addressing any issues raised by regulators. In April 2013 Ofsted concluded that the overall arrangements for the protection of children in the Devon County Council area were inadequate. Although the Council has incurred additional revenue expenditure in 2013/14 to address the Ofsted findings and has made structural and staff changes within children's services, the changes made have not yet delivered tangible improvements to child protection services. In July 2014 a letter from the Department for Education highlighted that, whilst there were some positive improvements (including the new structure, improved supervision and better communication from senior managers) they were concerned about the apparent lack of progress in some significant areas.

### **Qualified conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission in October 2013 with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Devon County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme                                       | Summary findings  |
|---|---|
| <p><b>Key indicators of performance</b></p> | <ul style="list-style-type: none"> <li>• The Council is reporting a small underspend of £14,000 after transfers to reserves. When these transfers are taken into account the performance is much stronger. When the 2013/14 budget was set it was estimated that there would be a transfer from reserves of £6.5million to support revenue expenditure. Instead there was a transfer of £2m the other way into reserves.</li> <li>• Facing significant budget overspends in People's Services in the first half of 2013/14 the Council enforced strict budget discipline to curtail spending. There were significant underspends in Place Services which delivered an underspend overall. It is the Council's success in 2013/14 in achieving this budget underspend and strengthening reserves which delivers a green in this key indicator of performance.</li> <li>• In 2012/13 we reported that using 2011/12 comparative data (the most recent available at the time) Devon CC had a higher than average level of borrowing measured against its ability to raise council tax and the highest level in the comparator group when borrowing is measured against its long term asset base.</li> <li>• Using 2012/13 data the Council continues to have the largest ratio of long term borrowing to long term assets in its comparative group and for 2013/14 with the recognition of the PFI liability for St Peter's (increase in borrowing) and the transfer out of more schools from its balance sheet this ratio has increased from 0.47 in 2012/13 to 0.51 in 2013/14.</li> </ul> |

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme                               | Summary findings   |
|-------------------------------------|--|
| <b>Strategic financial planning</b> | <ul style="list-style-type: none"> <li>• The Council has a process in place for determining its medium term financial plan and annual budget.</li> <li>• The MTFS demonstrates a good understanding of the key assumptions used during the financial planning process including a risk analysis to assess the potential impact of changes in key assumptions.</li> <li>• The Council updates its medium term financial strategy each year as part of the budget setting process. This MTFS clearly sets out the financial challenges that the Council is facing and the reductions in expenditure that it needs to achieve. However the medium term financial strategy is in practice relatively short term, it concentrates on 2014-15 and does not include savings plans for 2015-16 and beyond.</li> <li>• The Council has effective arrangements for ensuring the MTFS and budgets are kept under regular review and are responsive to changing circumstances and emerging financial risks.</li> </ul>                                       |
| <b>Financial governance</b>         | <ul style="list-style-type: none"> <li>• The Council has a clear understanding of the financial environment it is working in.</li> <li>• There is strong financial stewardship in place at both directorate and committee level</li> <li>• There is an appropriate level of senior management and member level engagement in the financial management process with good engagement with stakeholders.</li> <li>• The Council has reviewed services, including benchmarking as part of the service prioritisation process to identify reductions. The Council does not use a high-level benchmarking service as it feels the comparative information is less reliable than historically due to the unpredictable effect of service cuts in different authorities.</li> <li>• The Council has historically managed its budgets well and delivered good financial performance. Timely, informative budget information is provided to officers and members, highlighting those areas where issues have been identified and action needed.</li> </ul> |

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme                    | Summary findings   |
|--------------------------|--|
| <b>Financial control</b> | <ul style="list-style-type: none"> <li>• The Council has a well established budget setting process that encourages ownership from budget holders supported by appropriate engagement with both officers and members. The Council has a good track record in managing budgets on a service by service basis.</li> <li>• Budgets are monitored at officer, member and Cabinet level with updated forecast information available on a timely basis</li> <li>• The processes for identifying, delivering and monitoring savings are clearly established.</li> <li>• The in-year budget position has been monitored routinely and the financial plan for the year has been delivered after taking account of £22million planned savings.</li> <li>• There is scope to report more clearly to members on the achievement of savings plans as well as the overall budgetary position.</li> <li>• We concluded that the Council has appropriate systems of internal control, including its arrangements for Internal Audit and risk management.</li> </ul> |

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme                         | Summary findings  |
|-------------------------------|---|
| <b>Prioritising resources</b> | <ul style="list-style-type: none"> <li>• There has been some prioritisation between services at a strategic level in order to arrive at 'cash envelopes' which each service has worked within. The Council's MTFS describes the future savings strategy for each service and gives an outline budget for the next 3 years, detailed plans within the MTFS focus on 2014-15. We understand that separate plans exist for most of the savings required in 2015-16 and about half of those for 2016-17.</li> <li>• The Council is beginning to transform the way that key services are being provided. The Council has undertaken extensive consultation on youth services before making significant changes. There have also been changes in the way that library services have been provided. There remain significant risks to the Council's future financial position until these transformational projects are delivered and the savings are realised.</li> <li>• The Council is working with partners on the delivery of health and social care, especially with the co-ordination of the Better Care Fund, however there are risks around whether the expected funding will be released from the acute sector given the pressures on the Devon health economy.</li> <li>• The Council has worked with partners to share costs such as the Pensions Fund management and Trading Standards.</li> <li>• The Council understands the impact and outcome of decisions through performance reporting of indicators and how strategic priorities will be delivered.</li> </ul> |



The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme  | Summary findings  |
|--|---|
| <b>Improving efficiency &amp; productivity</b> | <p><b>Effectiveness of key services</b></p> <ul style="list-style-type: none"> <li>• we have considered the Council's progress since its Ofsted inspection report published in April 2013 which concluded overall that arrangements for the protection of children in the Devon County Council area were inadequate. Although the Council has incurred significant additional revenue expenditure in 2013/14 to address the OFSTED findings, causing an overspend in the People Directorate, and has made staff changes within children's services, the changes made have not yet delivered the necessary improvements. The DfE's view in July 2014 was that whilst improvements have been made</li> <li>• In July 2014 a letter from the Department for Education following review meetings stated that whilst there were some positive messages (including the new structure making the service feel safer, improved supervision and better communications from senior managers) they were very concerned about the apparent lack of progress in some significant areas.</li> <li>• We have interviewed senior officers and we have been provided with evidence of the work that the Council has been undertaking to address OFSTED's concerns. We have reviewed correspondence with the Department for Education which expressed concern with "...the apparent lack of progress in some significant areas...." and the letter goes on to say "..., if Ofsted inspected services now, they would find practice to still be 'inadequate'..."</li> <li>• The Council's current view is that 'whilst improvements have been made, the changes have not yet delivered the full range of improvements. However we are meeting expected and required targets set by the Department for Education'. We are not qualified to comment on this view and await confirmation of progress from the DfE/OFSTED.</li> <li>• On the basis of the DfE visit in June and subsequent letter, we have concluded that there is insufficient evidence of progress and therefore propose to issue a qualified value for money conclusion again for 2013/14.</li> </ul> |

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

| Detailed risk indicator   | Summary findings   |
|---|--|
| <p><b>Prioritising resources and the impact on the medium term financial strategy</b></p> | <p>The medium term financial strategy contains assumptions about the future financial position and challenges. The Council's detailed savings plans focus on 2014-15; whilst plans for future years are under development, there remains a significant gap of £14m in 2016-17 and some of the plans for 2015-16 and 2016-17 will require service change which may take longer to deliver.</p> <p>The Council has made progress in identifying savings for 2015/16 including an additional £10m support from the Better Care Fund. Agreement of this sum represents progress in discussions with the CCG but it is uncertain due to the financial pressures within the local health economy (see p 27).</p> <p>Significant transformation work is underway to achieve the necessary savings but this takes time to deliver the required outcomes. The Council needs to realise these service transformations and associated savings to mitigate the risk attached to the Council's future financial position.</p> |

We identified the following specific risks in our audit plan:

| Residual risk identified in the Audit Plan   | Summary findings   |
|--|--|
| <p><b>The Council needs to deliver significant cost savings in the short and medium term.</b></p>  | <p>The Council achieved an underspend in 2013/14 after applying strict budget discipline to services that were significantly overspending in the first half of the year. The Council curtailed the overspending in People Services and delivered underspends in Place, which allowed it to transfer £2m to reserves rather than use £6.5m of reserves as originally budgeted.</p> <p>In addition to applying strict budget discipline to People's Services the Council also made significant cost reductions on Place services – an overall net underspend of £4m on Place - mainly Highways Maintenance and lower than anticipated waste tonnages. The storm events diverted staff time and funding away from routine activities.</p> <p>Consequently, an element of the overall underspend will not recur and savings will have to be found in future years to help achieve the medium term financial strategy. Achievement of individual savings plans was not reported to members.</p> <p>The Council has made progress in identifying areas of saving and additional funding to close the budget gap for 2015/16. The 2015/16 plans include £10m from the Better Care Fund which is dependent upon the Council and its partners delivering reductions in unplanned hospital admissions. The risk of failure to achieve demanding performance targets could place this funding at risk .</p> |
| <p><b>Effectiveness of key services – response to 2013 OFSTED judgement on children's services</b></p>   | <p>Ofsted had not re-inspected the Council's child protection services by the time we had to reach a value for money conclusion. However, we have been able to review the progress that the Council has made to address the recommendations. Following a visit by the Department for Education in June 2014, it issued a letter expressing concern regarding "... the apparent lack of progress in some significant areas..."</p> <p>The Council still faces significant challenges to ensure that any improvements are consistently applied across the County to provide an effective child protection service.</p>   |
| <p><b>Health and Social Care Integration Transformation Fund / Better Care Fund (BCF) – we will review the plan in place with other participating bodies and the arrangements in place to ensure the delivery of desired outcomes.</b></p> | <p>The Council has worked collaboratively with partners including the NHS to draft plans to achieve positive outcomes for the people of Devon. The plan is to invest in schemes that focus on prevention, admission avoidance , minimising delayed transfers of care and reablement. The expected outcome is a reduction in the demand for inpatient services at acute and community hospitals. The Council and CCG have developed metrics to measure how the proposed outcomes are being delivered.</p> <p>There remains a risk to the delivery of the outcomes of reduced demand in absolute terms when the Joint Commissioner Co-ordination Group (including Devon CC as a member) is seeing increasing demand at Accident and Emergency Departments in Devon.</p> <p>It is not clear if the Better Care funding will be repayable if targets are not met and there remain financial and reputational risks.</p>  |

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

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

05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

|                         | Per Audit plan<br>£ | Actual fees<br>£ |
|-------------------------|---------------------|------------------|
| Council audit           | 140,374             | 140,374          |
| Grant certification     | 6,100               | *3,652           |
| <b>Total audit fees</b> | <b>146,474</b>      | <b>144,026</b>   |

\* indicative fee - The Audit Commission no longer requires auditors to certify the Teachers' Pension return and has reduced the indicative fee (for transport claims on East of Exe and South Devon Link Road) to £3,652. This remains an indicative fee until the work is completed.

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

|  | Audit Plan | Audit Findings |
|--|------------|----------------|
| <b>Our communication plan</b>  |            |                |
| Respective responsibilities of auditor and management/those charged with governance  | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications   | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought  |            | ✓              |
| Confirmation of independence and objectivity   | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓          | ✓              |
| Material weaknesses in internal control identified during the audit  |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements   |            | ✓              |
| Compliance with laws and regulations   |            | ✓              |
| Expected auditor's report  |            | ✓              |
| Uncorrected misstatements  |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   |            | ✓              |

# Appendices



## Appendix A: Action plan

| Rec No. | Recommendation   | Priority | Management response   | Implementation date & responsibility                                     |
|---------|--|----------|---|--|
| 1       | The Council should have a more detailed medium term financial plan including details of planned savings.   | High     | The Medium Term Financial Strategy is reviewed and updated each year as part of the budget setting process. This recommendation will be considered at that time.  | County Treasurer<br>February 2015  |
| 2       | The Council should develop further detailed plans for how all of its planned savings will be delivered.  | High     | The County Council has a good record of identifying and delivering savings and has made good progress in continuing this in 2015/16 and in to 2016/17   | Ongoing  |
| 3       | Achievement of individual savings plans should be reported to members  | High     | Members receive high level reports from the corporate centre that bring to their attention anything that is not going according to plan. In addition any financial issues are incorporated within the regular budget monitoring reports.<br><br>We do not consider additional reporting is required | Ongoing  |
| 4       | The Council should focus on how progress can be accelerated now the staffing structure is in place.  | High     | Agreed  | Strategic Director People  |
| 5       | We recommend that lock out policy should be set to no more than 3 password guesses then lockout until an administrator unlocks the account. Also, that appropriate security logs are identified and reviewed on a regular basis. | Medium   | System lockout is currently after six incorrect attempts. Unlocking/resetting is controlled by the Finest System Team. Lockout will be changed to after three attempts.   | Deputy County Treasurer in liaison with Head of ICT.<br><br>October 2014 |

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified opinion on the financial statements but we plan to qualify the value for money conclusion.**

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

### Opinion on the Authority financial statements

We have audited the financial statements of Devon County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Devon County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the Responsibilities, the County Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Devon County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

#### **Respective responsibilities of the Authority and the auditor**

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

### **Basis for qualified conclusion**

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered the Council's progress in addressing any issues raised by regulators. In April 2013 Ofsted concluded that the overall arrangements for the protection of children in the Devon County Council area were inadequate. Although the Council has incurred additional revenue expenditure in 2013/14 to address the Ofsted findings and has made structural and staff changes within children's services, the changes made have not yet delivered tangible improvements to child protection services. In July 2014 a letter from the Department for Education highlighted that, whilst there were some positive improvements (including the new structure, improved supervision and better communication from senior managers) they were concerned about the apparent lack of progress in some significant areas.

#### **Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Devon County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

#### **Certificate**

We certify that we have completed the audit of the financial statements of Devon County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Elizabeth Cave  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT  
September 2014



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